Legislative Budget Analysis 2011 Biennium

Volume 1—Statewide Perspectives

Budget Overview
- *An Executive Summary*

Perspectives on the Economy and Demographics

State Revenue Perspectives

State Expenditures Perspectives
- Overview of State Expenditures
- Major Expenditure Proposals

Major Issues Facing the Legislature

January 2009

Legislative Fiscal Division

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LEGISLATIVE BUDGET ANALYSIS
2011 BIENNIUM
VOLUME 1 – STATEWIDE PERSPECTIVES

REPORT FROM THE LEGISLATIVE FISCAL DIVISION TO THE SIXTY-FIRST LEGISLATURE

January 2009

Clayton Schenck, Legislative Fiscal Analyst

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ACKNOWLEDGEMENTS

The multi-volume *Legislative Budget Analysis* report is the product of many hours of analysis by the staff of the Legislative Fiscal Division (LFD), a nonpartisan office which provides fiscal and policy information and advice to the legislature. The LFD thanks the many entities that assisted in its completion, particularly the Print Services Bureau.

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Legislative Fiscal Analyst
CLAYTON SCHENCK

December 2008

Members of the Sixty-first Legislature:

I submit for your consideration a fiscal analysis of the state budget outlook for the 2011 biennium and Governor's Executive Budget. It is our goal that this analysis will provide the information and insight necessary for legislators to craft an effective state budget and fiscal policy for the 2011 biennium. This eight-volume report includes:

- Volume 1: Statewide Perspectives – This volume provides an executive summary and an overview of the state fiscal outlook and the executive budget analysis, as well as major fiscal issues in the 2009 session
- Volume 2: Revenue Estimates – This volume provides the revenue estimates and underlying economic assumptions included in the revenue estimate resolution (HJR 2), and is designed as a working document for the taxation committees
- Volumes 3 through 7: Agency Budgets – These volumes are designed to serve as working documents for the appropriations subcommittees. They provide:
  - The Governor's agency budget recommendations
  - The Legislative Fiscal Division's detailed descriptions and analysis of the various components of the Executive Budget as well as other LFD fiscal issues
- Volume 8 – A general reference document (online only)

I am indebted to an exceptional LFD staff for their thousands of extra hours and dedication in preparing this analysis. Their dedication and professionalism are a credit to the Legislature and the citizens of Montana.

We appreciate the cooperation and assistance of the Office of Budget and Program Planning and agency staff during the budget analysis process.

Your staff of the Legislative Fiscal Division look forward to being of service to the legislature during the 2009 session. We welcome any opportunity to assist you in obtaining the best possible fiscal information to facilitate setting fiscal policy. Staff names, assignments, and phone extensions are listed on page vii. Please call on us!

Respectfully submitted,

Clayton Schenck
Legislative Fiscal Analyst

TABLE OF CONTENTS PAGE

2011 BIENNIUM BUDGET OVERVIEW

PERSPECTIVES ON THE ECONOMY AND DEMOGRAPHICS

STATE REVENUE PERSPECTIVES

AN OVERVIEW OF STATE EXPENDITURES

MAJOR EXPENDITURE PROPOSALS

MAJOR ISSUES FACING THE LEGISLATURE

APPENDIX A

APPENDIX B

APPENDIX C

GLOSSARY/ACRONYMS/INDEX

REVENUE ESTIMATES – VOLUME 2

AGENCY BUDGETS – VOLUME 3 THROUGH 7

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INTRODUCTION

PURPOSE OF VOLUME 1

The purpose of this report is to provide legislators with the information needed to assist them in crafting a balanced state budget and fiscal policy, and in reflecting their priorities in the 2011 biennium general appropriations act and other appropriations bills. It seeks to accomplish this by: 1) providing perspectives on the state's fiscal condition and the budget proposed by the Governor for the 2011 biennium and 2) identifying some of the major issues now facing the Legislature. As such, this document is intended to complement Volumes 2 through 7 of the *Legislative Budget Analysis – 2011 Biennium*, which contains our review of the 2011 Biennium Executive Budget. In addition, this document is a reference document for all legislators, providing a myriad of information about state government.

While Volumes 2 through 7 of the *Legislative Budget Analysis* continue to report the results of our detailed examination of revenue estimates and expenditures and proposed budgets of state programs, Volume 1 presents a broader fiscal overview and discusses significant fiscal and policy issues which either cut across program or agency lines, or do not necessarily fall under the jurisdiction of a single fiscal subcommittee of the legislature. Volume 1 discussions incorporate the December 15 Governor's revisions.

This volume is divided into six parts:

- **2011 Biennium Overview** provides a high level summary of our analysis of the proposed executive budget.
- **Perspectives on the Economy and Demographics** describes the current outlook for the economy.
- **State Revenues Perspectives** provides a review of the revenue projections in the budget and our own assessment of revenues through FY 2011.
- **State Expenditures Perspectives – Part One** provides an overview of the state spending plan for the 2009 biennium.
- **State Expenditures Perspectives – Part Two** evaluates the major expenditure proposals in the budget.
- **Major Issues Facing the Legislature** includes discussions of several issues, a list of which can be found on page 87 of this volume.

WHAT IS CONTAINED IN VOLUMES 2 THROUGH 7?

Volume 2

Volume 2 includes a summary and overview of the state's major revenue sources. A review of the table of contents will give the reader a quick idea of revenue sources included and the structure of the report. This volume will be provided to the House and Senate Taxation committees for use as a working document, and delineates the economic assumptions used to derive revenue estimates adopted by the Revenue and Taxation Interim Committee (RTIC) on November 17, 2008 and introduced in the revenue estimate bill (HJR 2).

Volumes 3 through 7

Volumes 3 through 7 offer detailed analyses of individual agency budgets, as proposed through the *Governor's Executive Budget* submitted in mid-November, but had gone to print before the December 15 revisions were received. These volumes feature program-by-program detail, as well as the LFD analysis of each agency budget. Agency presentations are grouped in sections corresponding to the appropriations subcommittee addressing the agency.

- Volume 3 contains section A – General Government
- Volume 4 contains section B – Health and Human Services
- Volume 5 contains section C – Natural Resources and Transportation
- Volume 6 contains section D – Judicial Branch, Law Enforcement, and Justice
- Volume 7 contains section E and F– Education and Long-Range Planning, respectively

Volumes 3 through 7 briefly describe the agencies from all three branches of state government, as well as each program within an agency. The basic structure used for the analysis is consistent across agencies. These volumes detail an agency's requests, as well as a list of proposals and issues significant to the agency. When appropriate, there may be discussion of circumstances that could hold budgetary impacts (e.g., proposed executive legislation or agency reorganization). These volumes also present detailed discussions of present law adjustments, new proposals, and significant issues facing the various agencies as identified by legislative fiscal analysts.

Agency budgets are presented in three tiers as required by statute:

- **Base budget:** the level of funding authorized by the previous legislature;
- **Present law base:** the additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature; and
- **New proposals:** requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.

By making this presentation in this tiered manner, legislators can use the "base budget" as the starting point, then to follow the incremental increases that result in a total budget request for an agency.

Budget Overview

. . . An Executive Summary

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Budget Overview
- An Executive Summary -

LFD BOTTOM LINE

The 2011 biennium fiscal outlook is considerably different than two years ago. Strong state revenue growth for the past five years has left a projected FY 2009 fund balance of $387.1 million. Individual, corporation, and oil and gas production taxes were the sources of revenue primarily responsible for the robust revenue growth for the past several years. However, the recent economic recession has begun to impact Montana revenues, with receipts expected to drop off significantly during the 2011 biennium. Legislative fiscal Division revenue estimates were revised in mid December to reflect less optimistic economic indicators as the economic outlook worsens. The executive budget was also revised to reflect lower revenue estimates. While there is a large fund balance carryover, funds available for ongoing services are limited if the general fund is to maintain structural balance (where ongoing revenues meet or exceed ongoing expenditures). Given the volatility of the economic climate the probability for additional revisions to the revenue estimates is high.

The Legislative Fiscal Division's (LFD) analysis of the *2011 Biennium Executive Budget* concludes that the Governor's proposed budget:

- Would finish the 2011 biennium with a $277.1 million general fund balance, before reserves (compared to the Governor's estimate of $295.5 million)
- Proposes a general fund budget that is structurally balanced in FY 2011 ($0.3 million); however, this could easily be impacted with a further deterioration of current economic conditions
- Provides for increases in total general fund of $312.5 million (9.0 percent) over the current biennium, and for increases in total funds of $792.6 million (9.0 percent)
- Is predominantly a present law budget that funds existing services at revised caseload, population, and student enrollment levels
- Funds the budget with existing revenues, with no significant new tax policy recommendations other than mitigation of property tax reappraisal

THE EXECUTIVE BUDGET PROPOSAL[1]

REVENUE FORECAST – DECLINING REVENUES IN 2011 BIENNIUM

The executive budget revenue forecast is based on economic and revenue trends through early December 2008. Tax receipts during FY 2008 were higher than the *HJ2 Revenue Estimates, May 2007 Special Session* estimate. The executive's forecast assumes a revenue decline of $147.8 million in the 2011 biennium when compared to the 2009 biennium. Total general fund revenue is expected to decrease by 3.8 percent, reaching $3.7 billion in the 2011 biennium. Combined with an estimated $366.8 million general fund balance carried over from the 2009 biennium, the executive anticipates total general fund revenue available to fund the executive budget is $4.1 billion in the 2011 biennium. This differs from LFD estimates by nearly $20 million, to be discussed later in this report.

Revenue Related Policy Changes.

The executive budget proposes one major tax policy change. Although no specifics were provided in the executive budget, the executive proposes to mitigate the effects of property tax reappraisal. The budget also includes $3.5 million in new general fund revenues from proposed revenue related changes. The executive also proposes to remove the FY 2009 sunset provision from the wildfire suppression account. This proposal would reduce revenues to the general fund by $32.9 million in FY 2009. See page30 in this volume for more information.

PROPOSED SPENDING

The executive budget proposes $9.6 billion total state spending for the 2011 biennium. If on-going spending is compared between biennia, total spending increases by $662.8 million or 7.5 percent. General fund spending is proposed to increase from $3.5 billion to $3.8 billion. If on-going spending is compared between biennia, general fund spending increases by $257.5 million or 7.4 percent. The increases are predominantly to continue existing services at revised caseload, prison population, and student enrollment levels.

EXECUTIVE'S GENERAL FUND STATUS

Figure 1 shows the general fund balance sheet for the 2009 and 2011 biennia with the executive budget's assumptions and proposals. It shows that:

FY 2008–2009. The 2009 biennium concludes with a ending fund balance of $366.8 million, or about three times the amount estimated by the legislature after the

[1] As required by law, the executive budget includes proposed expenditures for all funds that require an appropriation – either a general appropriation or a statutory appropriation -- in order to be spent from the state treasury. Several types of funds fall into this category, including general fund, state special revenue, federal special revenue, proprietary funds that transfer profits or ending fund balance to an appropriated fund, and capital projects funds

September 2007 Special Session, reflecting stronger than anticipated individual, corporation, and oil and gas production tax collections.

FY 2010-2011. In the next biennium, projected general fund revenue available – which includes the FY 2009 ending general fund balance plus new revenues -- is $4.1 billion, while proposed disbursements total $3.8 billion. The difference is proposed to be set aside for a $295.5 million ending general fund balance.

Figure 1

Executive Budget Proposal - General Fund

Figures in Millions

	Actual FY 2008	Budgeted FY 2009	Requested FY 2010	Requested FY 2011	2009 Biennium	2011 Biennium	Biennial $ Change	Biennial % Change
Beginning Fund Balance	$545.863	$437.679	$366.841	$303.090	$545.863	$366.841	($179.022)	-32.8%
Revenue								
Executive Revenue Estimate	1,953.519	1,905.623	1,816.445	1,894.911	3,859.142	3,711.356	(147.786)	-3.8%
Executive Revenue Proposals	-	(32.915)	0.022	3.522	(32.915)	3.544	36.459	-110.8%
Total Funds Available	$2,499.382	$2,310.387	$2,183.308	$2,201.523	$4,372.090	$4,081.741	($290.349)	-6.6%
Disbursements								
General Appropriations	1,553.705	1,686.303	1,661.325	1,694.740	3,240.008	3,356.065	116.057	3.6%
Statutory Appropriations	264.231	163.655	179.769	182.257	427.886	362.026	(65.860)	-15.4%
Transfers	167.822	106.425	8.679	9.468	274.247	18.147	(256.100)	-93.4%
Other Appropriations	82.111	15.703	33.980	17.080	97.814	51.060	(46.754)	-47.8%
Supplemental Appropriations	-	2.648	-	-	2.648	-	(2.648)	-100.0%
Feed Bill	1.262	6.932	1.215	7.515	8.194	8.730	0.536	6.5%
Reversions		(42.360)	(4.750)	(5.000)	(42.360)	(9.750)	32.610	-77.0%
Total Disbursements	$2,069.131	$1,939.306	$1,880.218	$1,906.060	$4,008.437	$3,786.278	($222.159)	-5.5%
Fund Balance Adjustments	7.428	(4.240)	-	-	3.188	-	(3.188)	-100.0%
Ending Fund Balance	$437.679	$366.841	$303.090	$295.463	$366.841	$295.463	($71.378)	-19.5%

KEY FEATURES OF THE EXECUTIVE BUDGET

Figures 2 and 3 show the executive budget by function for the general operations of state government and by appropriation type for the remaining budget items. Figure 2 shows the total executive budget from <u>all fund sources</u>. As shown in Figure 2, K-12 (public) education, human services, and "other agencies" (primarily due to transportation and various environmental and wildlife expenditures), consume the largest share of the total funds budget at 75.9 percent.

Figure 2

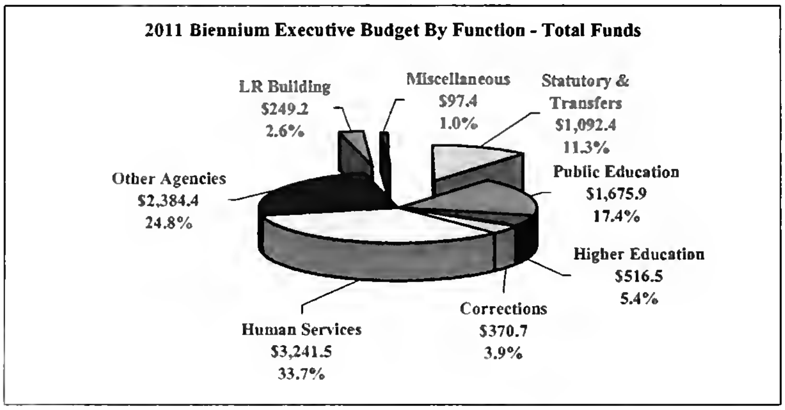
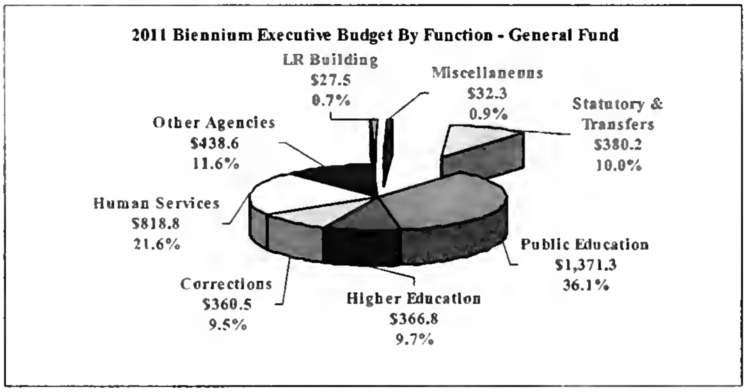


Figure 3 shows the general fund budget proposed by the executive. As shown, the largest expenditures are made fro K-12 and higher education, human services, "other agencies", statutory appropriations and transfers, which comprise almost 79.3 percent of the budget.

Figure 3



Some of the key programmatic features of the proposed executive budget are shown in Figure 4 and in the summary paragraphs on the following pages

Figure 4

KEY PROGRAMMATIC FEATURES OF THE 2011 BIENNIUM EXECUTIVE BUDGET PROPOSAL

Predominantly a Present Law Budget, Funds Existing Services

- Funding present law adjustments costs $329.7 million
- Generally funds caseload, population, and student enrollment at current projections

Education

- Increases K-12 BASE aid and special education by 3.0 percent per year
- Essentially funds the Montana University System at the FY 2009 level and does not continue the College Affordability Program (mitigate tuition increases)

Public Health and Human Services

- Funds the current projected level of caseload
- Funds voter passed Healthy Kids initiative (I-155)

Corrections

- Funds a projected population increase of about 4.6 percent each year

Long Range Planning

- Funds capital projects of $20.6 million general fund, $113.1 million total funds
- Included in capital projects is the Governor's 20 x 10 initiative to increase state government energy efficiencies by 20 percent
- Funds major information technology projects of $5.5 million general fund, $100.3 million total funds

State Employee Compensation

- Increases state contribution towards health insurance premiums
- No state employee percentage increase for cost of living or market adjustment
- Provides one time lump-sum payment to employees making $45,000 or less

Revenue and Tax Proposals

- Proposes to mitigate the effects of property tax reappraisal
- Removes sunset provision of wildfire suppression account

2009 Biennium General Fund Balance Funds One-time Expenditures in 2011

- 15 percent of the 2009 biennium fund balance ($55 million) would be allocated for 2011 biennium one-time expenditures
- The Governor's "20 x 10" energy savings initiative is 40 percent of the proposed one-time expenditures

Predominantly a Present Law Budget, Funds Existing Services

Of the increases proposed in the executive budget, present law accounts for a majority of the increases with only a minor amount of new proposals requested. The executive essentially funds all projected caseload, population, and enrollment levels (with the exception of a portion of secure care correctional populations). However, human services caseload projections could be problematic during an economic downturn and the executive likely does not fully address the potential impacts (see page 75). The executive also makes an across the board reduction by increasing vacancy savings from 4 to 7 percent for most positions. This proposal may have an impact on present law operations.

Education

The executive funds all projected enrollment increases and adds a 3 percent per year increase in both BASE Aid and special education. Special education is also increased to ensure all federally required maintenance of effort expenditures are made.

The executive essentially funds the university system at the FY 2009 level by funding present law increases. There are two primary components: 1) the executive adds present law, but then assumes a greater share of funding from tuition. By this action, the executive discontinues the college affordability plan adopted by the last legislature to freeze tuition; and 2) the executive applies a reduction to present law through the increase in vacancy savings applied to most positions in state government.

Public Health and Human Services

The executive funds all projected caseload increases and replaces all reduced federal funds due to a change in the percentage of Medicaid costs paid by the federal government. These two actions essentially maintain current services for those currently eligible. The executive also includes funding to implement the Healthy Montana Kids (I-155 initiative). Whether implementation is possible will depend on securing an amendment to the current state plan and a large increase in the federal grant.

Corrections

The executive assumes population increases of about 4.6 percent each year. The executive does not provide funding for about 30 inmates in FY 2010 and 76 inmates in FY 2011 of the projected secure care population increases, which means that some will have to be moved from secure care to lower cost programs and facilities.

Long Range Planning

The executive budget proposes appropriations and authorizations of $113.1 million for land acquisition and building major maintenance projects. The executive's priorities are on energy improvements ($26.5 million, or 23 percent) and associated deferred maintenance projects ($59.4 million, or 52 percent).

The executive budget allocates approximately $100.3 million of total funds to the state's information technology needs. Over 95 percent of these funds would be non-general fund monies. Almost $66 million of this total would be for a replacement of the

current Medicaid Management Information System (MMIS) in the Department of Public Health and Human Services.

The budget includes $13.4 million general fund for energy efficiency projects that are the most significant component of the Governor's "20 x 10" initiative, with a goal to increase energy efficiencies by 20 percent by 2010.

State Employee Compensation

The executive pay plan proposal provides for a $450 lump-sum pay adjustment for all employees making $45,000 or less during FY 2010. Employees making more than this amount would not receive the lump-sum adjustment. There is no percentage increase proposal for state employees. The plan also proposes to increase health insurance benefits by $53 per month for FY 2010 and $54 per month for FY 2011. Projected cost of the pay plan is $18.6 million general fund and $32.7 million total funds for the 2011 biennium.

Revenue and Tax Proposals

The executive proposes to mitigate the effects of property tax reappraisal. No specifics were provided in the executive budget for a mitigation strategy. Since the executive budget does not include any revenue impacts of reappraisal, it is assumed the mitigation proposal would be revenue neutral at the state level. Further, the executive budget proposes to remove the sunset provision from a fire suppression fund that would have otherwise reverted $32.9 million to the general fund.

2009 Biennium Fund Balance Funds One-Time Expenditures in 2011 Biennium

As shown in Figure 5, the executive proposes allocating approximately 15 percent of the projected 2009 biennium ending general fund balance, nearly $55 million, for one-time only disbursements in the 2011 biennium. The executive allocates 40 percent of the proposed one-time disbursements towards the Governor's "20 x 10" initiative. Almost 41 percent is allocated to various initiatives contained in HB 2 and 13.

Figure 5

Executive Budget One-Time Only Initiatives - General Fund

Figures in Millions

Description of Initiative	Budgeted FY 2010	Budgeted FY 2011	2011 Biennium	% of Total
HB 2 Present Law Adjustments	$3.392	$0.208	$3.600	6.5%
HB 2 New Proposals	7.966	3.728	11.694	21.3%
HB 5 20 x 10 Initiative	14.700	7.260	21.960	39.9%
HB 10 Information Technology	5.500	-	5.500	10.0%
HB 13 Pay Proposal	5.546	1.471	7.017	12.8%
Water Compact Legislation	5.000	-	5.000	9.1%
Statutory Appropriation for Arbitrage	-	0.215	0.215	0.4%
Total One-Time Only	**$42.104**	**$12.882**	**$54.986**	

As shown in Figure 6, the executive allocates $301.6 million of total funds for one-time-only disbursements. The largest allocation is for information technology projects of $100 million or nearly 33.1 percent.

Figure 6

Executive Budget One-Time Only Initiatives - Total Funds Figures in Millions				
Description of Initiative	Budgeted FY 2010	Budgeted FY 2011	2011 Biennium	% of Total
HB 2 Present Law Adjustments	$7.426	$2.796	$10.222	3.4%
HB 2 New Proposals	14.341	9.098	23.439	7.8%
HB 5 20 x 10 Initiative	14.700	7.260	21.960	7.3%
HB 5 Maintenance & Acquisition	77.562	-	77.562	25.7%
HB 10 Information Technology	99.752	-	99.752	33.1%
HB 13 Pay Proposal	10.256	2.181	12.437	4.1%
School Trust Bonds	21.000	-	21.000	7.0%
Wildfire Account	30.000	-	30.000	9.9%
Water Compact Legislation	5.000	-	5.000	1.7%
Statutory Appropriation for Arbitrage	-	0.215	0.215	0.1%
Total One-Time Only	$280.037	$21.550	$301.587	

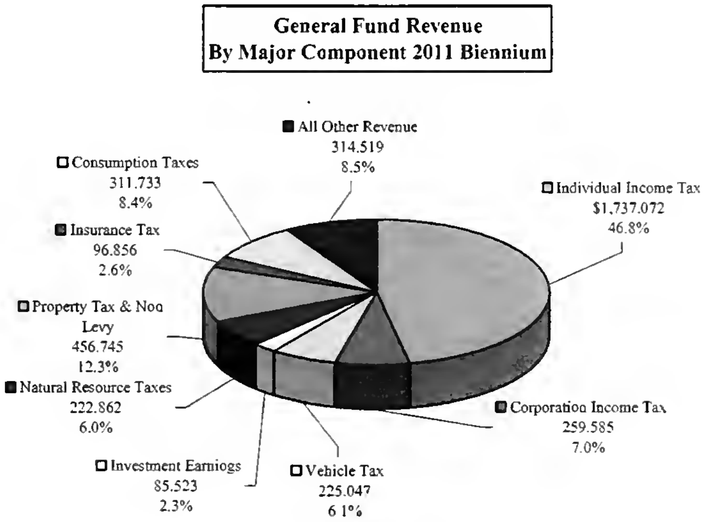
See Pages 83 and B-3 for more detail about the Governor's proposed one-time expenditures.

LFD Analysis of Executive Budget

This section discusses the key LFD budget findings of the proposed *2011 Biennium Executive Budget.* In addition, LFD analyzes the impact of the *2011 Biennium Executive Budget* proposal on the 2011 biennium general fund balance, using the LFD revised revenue estimate recommendations; LFD estimates for statutory appropriations, transfers, reversions; LFD revenue and expenditure adjustments based on an analysis for differences in the executive budget; and the executive's recommendations for present law and new proposals. It should be noted that since the November 17, 2008 meeting of the RTIC economic conditions have changed significantly to warrant revised revenue estimate recommendations. While statute requires the RTIC estimates to be the official estimates of the legislature until changed by legislative action, the current economic climate provides a compelling reason for revised estimates that incorporate the most recent economic data. The revised LFD revenue estimate recommendations will be submitted to the legislature at the beginning of the session.

As shown in Figure 7, the revised LFD revenue estimates provide $3.7 billion in revenues, with individual and corporate income tax, property tax, comprising 66.1 percent of total general fund revenues.

Figure 7



Major Category	2009 Biennium Estimate Millions	2011 Biennium Estimate Millions	Percent Change	Percent of 2011 Biennium
Individual Income Tax	$1,721.482	$1,737.072	0.91%	46.82%
Corporation Income Tax	315.180	259.585	-17.64%	7.00%
Vehicle Tax	226.729	225.047	-0.74%	6.07%
Investment Earnings	98.533	85.523	-13.20%	2.31%
Natural Resource Taxes	300.338	222.862	-25.80%	6.01%
Property Tax & Non Levy	419.659	456.745	8.84%	12.31%
Insurance Tax	113.836	96.856	-14.92%	2.61%
Consumption Taxes	291.472	311.733	6.95%	8.40%
All Other Revenue	352.053	314.519	-10.66%	8.48%
Total General Fund	**$3,839.281**	**$3,709.942**	-3.37%	

This section also presents and discusses the differences between the executive budget general fund balance and the LFD general fund balance.

Figure 8

KEY LFD BUDGET FINDINGS OF THE 2011 BIENNIUM EXECUTIVE BUDGET PROPOSAL

2011 Biennium Would Conclude With $277.1 Million General Fund Balance

- This is an historically high proposed balance, designed to address an economic downturn of unknown duration and intensity
- The executive budget proposal is structurally balanced in the second year of the budgeted biennium

Can Present Law Services Be Maintained?

- The executive budget has reduced funding for present law services to the point where maintenance of current government services may be jeopardized
- Impacts of an economic downturn generally increase demand for many state services that may not be reflected in the executive budget, particulary Medicaid and other health services

Executive Budget Doesn't Provide Measurable Performance Indicators

- Measurable performance indicators provide a means for evaluating value and ultimate success of budget proposals
- Performance indicators submitted by the executive are predominantly not measurable and thus don't provide valuable information for prioritization or measurement of progress and identification of corrective action on challenges

Undeveloped Budget Proposals

- Several executive budget proposals lack sufficient information and details to evaluate their impact and merit
- Statute requires submission of the executive budget by a specific deadline and with sufficient data to evaluate and understand the proposals

2011 Biennium Would Conclude With $277.1 Million General Fund Balance

As indicated in Figure 9, the LFD estimates that if the executive budget proposals were fully adopted, the state would end the 2011 biennium with approximately a $277.1 million general fund balance. This balance would be used in the advent of a revenue shortfall.

The LFD projects ongoing general fund revenue will decrease 3.4 percent in the 2011 biennium due to an economic slowdown and significant declines in commodity prices. These conditions will severely impact individual, corporation, and oil and gas production taxes. The LFD estimates that the revenue that will be generated from the executive's revenue proposals would be a negative $1.1 million. This compares to the executive's estimate of $5.4 million for the 2011 biennium. The revenue proposals contained in the executive budget are anticipated to be ongoing revenues.

The executive budget proposes to increases spending by $312.5 million for the 2011 biennium when compared to the 2009 biennium. This increase can be summarized by the following categories:

- HB 2 increases of $205.7 million
- Long-range planning proposals of $27.5 million
- Miscellaneous proposals of $32.3 million
- Statutory appropriations/transfers of $47.0 million

Most of the HB 2 increases are for public health programs ($74.0 million), public schools ($62.5 million), corrections ($21.8 million), and higher education ($10.4 million). A majority of the HB 2 increases are to maintain present law services. The long-range planning and miscellaneous proposals should be viewed as new proposals or new initiatives. Major items included in this category are the Governor's "20 x 10" initiative, the executive pay plan, and the two water compact proposals. Statutory/ transfer increases are for increased retirement system payments and increases in local government entitlement payments. These increases are required by statute.

LFD General Fund Balance

Figure 9

LFD Estimates with Executive Proposals - General Fund Outlook

Figures in Millions

	Actual FY 2008	Budgeted FY 2009	Requested FY 2010	Requested FY 2011	2009 Biennium	2011 Biennium	Biennial $ Change	Biennial % Change
Beginning Fund Balance	$543.541	$437.677	$354.233	$290.101	$543.541	$354.233	($189.309)	-34.8%
Revenue								
HJ2 Revenue Estimate	1,953.540	1,885.741	1,816.452	1,893.490	3,839.281	3,709.942	(129.339)	-3.4%
Executive Revenue Proposals		(32.915)	(0.540)	(0.540)	(32.915)	(1.080)	31.835	-96.7%
Total Funds Available	$2,497.081	$2,290.504	$2,170.144	$2,183.052	$4,349.908	$4,063.095	($286.813)	-6.6%
Disbursements								
General Appropriations	1,705.128	1,649.184	1,655.743	1,692.522	3,354.312	3,348.265	(6.047)	-0.2%
Executive New Proposals		-	39.996	23.206	-	63.202	63.202	
Statutory Appropriations	262.666	165.266	177.965	176.948	427.932	354.913	(73.019)	-17.1%
Transfers	166.358	107.049	9.023	9.701	273.407	18.724	(254.683)	-93.2%
Other Appropriations	-	54.253	-	-	54.253	-	(54.253)	-100.0%
Supplemental Appropriations	-	2.648	-	-	2.648	-	(2.648)	-100.0%
Feed Bill	-	9.891	2.589	10.294	9.891	12.883	2.992	30.2%
Reversions	(65.107)	(46.921)	(5.273)	(6.767)	(112.028)	(12.040)	99.988	-89.3%
Total Disbursements	$2,069.045	$1,941.370	$1,880.043	$1,905.904	$4,010.415	$3,785.947	($224.468)	-5.6%
Fund Balance Adjustments	9.641	5.099	-	-	14.740	-	(14.740)	-100.0%
Ending Fund Balance	$437.677	$354.233	$290.101	$277.148	$354.233	$277.148	($77.085)	-21.8%

Explanation of Difference of LFD GF Outlook from EB GF Outlook

Figure 10 shows the three year difference (FY 2009-2011) between the LFD and the executive budget for each of the general fund balance items. The LFD estimate for the 2011 biennium ending fund balance is $277.1 million compared to the executive budget's estimate of $295.5 million. The differences are due to the following reasons:

- Lower revenue estimates and revenue proposal impacts as estimated by the LFD ($25.9 million)
- Higher disbursements anticipated by the LFD ($1.7 million)
- And higher fund balance adjustments by the LFD ($9.3 million)

Figure 10

FY 2009-2011 Differences - LFD versus Executive Budget Figures in Millions				
	LFD 2009-2011	**Executive 2009-2011**	**Biennial $ Change**	**Biennial % Change**
Beginning Fund Balance	$437.677	$437.679	$0.002	0.0%
Revenue				
HJ2 Revenue Estimate	5,595.684	5,616.979	21.295	0.4%
Executive Revenue Proposals	(33.995)	(29.371)	4.624	
Total Funds Available	$5,999.366	$6,025.287	$25.921	0.4%
Disbursements				
General Appropriations	5,114.904	5,109.131	(5.773)	-0.1%
Statutory Appropriations	520.179	525.681	5.502	1.1%
Transfers	125.773	124.572	(1.201)	-1.0%
Supplemental Appropriations	2.648	2.648	-	0.0%
Feed Bill	22.774	15.662	(7.112)	-31.2%
Reversions	(58.961)	(52.110)	6.851	-11.6%
Total Disbursements	$5,727.317	$5,725.584	($1.733)	0.0%
Fund Balance Adjustments	5.099	(4.240)	(9.339)	-183.2%
Ending Fund Balance	$277.148	$295.463	$18.315	6.6%

Lower Revenues

Overall, the LFD projects $21.3 million less general fund revenue available in FY 2009 through 2011 than the executive budget. This difference is primarily due to the underlying assumptions for individual, corporation, and oil and gas production taxes. The LFD estimates are generally more conservation for corporation and oil and gas production taxes, but more optimistic than the executive for individual income taxes. If the revenue difference is examined by fiscal year, the majority of the difference ($19.9 million) occurs in FY 2009. The executive estimate for individual income tax is almost $14 million higher in FY 2009.

The LFD estimate of the executive revenue proposals is $4.6 million less than the executive. This difference is due to two executive revenue proposals that were incorrectly included on the executive's balance sheet. For more information, see *Perspectives on State Revenues,* page 30.

Higher Disbursements

The LFD projects $1.7 million more general fund disbursements in FY 2009 through 2011 than the executive budget. Most of this difference is attributable to two items: 1) The executive budget shows the "net" feed bill costs instead of showing the total amount with a corresponding reversion amount. This is the

method used by the LFD and. 2) the LFD projects higher transfers in the 2011 biennium than the executive. In most instances, the executive and the LFD relied on the same statutory appropriation and transfer information supplied by the respective agencies. However, since the LFD vehicle tax estimates are higher than the executive, the corresponding vehicle transfer amounts will also be higher.

Higher Fund Balance Adjustments

Fund balance adjustments are the sum of prior year revenue and disbursement adjustments and direct adjustments to fund balance. The LFD used the most recent information available from the accounting system and the Department of Administration.

CAN PRESENT LAW SERVICES BE MAINTAINED?

The executive budget is predominantly a present law budget designed to maintain an existing level of services. However, the proposed reductions in funding raise the question of whether existing state services can be maintained. In particular, there are several areas where the unknown duration and severity of the economic downturn could significantly increase the demand for government services beyond what was included in the executive budget. These areas include the following:

- Projections for Medicaid services are very uncertain in view of the economy and any additional normal increase in Medicaid eligibility and other health services
- Under the current proposal, the executive has underfunded the more expensive secure care beds and will have to move more projected population into less expensive community placements. As the same time, the worsening economic situation would result in higher secure care populations if current community placements cannot find work and are unable to maintain the conditions of the their community placement.
- Projected interest and income that offsets general fund in K-12 education could be reduced by worsening economic conditions, and general fund would have to assume more of the statutorily established level of BASE aid to schools
- The executive budget includes an increase from 4 percent to 7 percent vacancy savings for personal services, which constitutes an across-the-board reduction for state agency operations, and the impact on programs will vary widely without regard to prioritization of need
- The impact on operations and service delivery from a reduction in a primary resource in an already tight present law budget will likely be unknown until well into the budgeted biennium
- Positions will likely have to be held open or funds transferred from another budget category to generate enough savings to cover the vacancy savings assessment, having an unknown impact on operations
- Access to higher education could be impacted if tuition costs increase
    - The executive budget does not continue the College Affordability Program included in the current biennium to freeze tuition rates
    - The executive proposal effectively reduces state funding for higher education, as there are present law costs that continue into the 2011 biennium that aren't

funded by state funds, and would have to be funded by tuition increases or expenditure reductions

BUDGET DOESN'T PROVIDE MEASURABLE PERFORMANCE INDICATORS

Performance measurement is a significant new tool developed at the direction of the Legislative Finance Committee, and is being used in the state budget process to answer questions about what the government does, and the amount of resources necessary to make it happen. By using a very simple performance measurement process, much more information is provided to legislators to help ensure taxpayer dollars are used in the most efficient way based on priorities. It enables the legislature to answer questions basic to its constitutional duty to fund state government, including what government is trying to accomplish (goals), whether goals are being accomplished, and whether expenditures are justified.

While all agencies included goals for their programs in some fashion, there was a consistent pattern of goals that had limited applicability to the specific purpose of the program, where objectives for accomplishing the goal were incomplete or not presented, or where the objectives did not equate to achievement of goals.

The most consistent issue raised in the LFD analysis, and the most challenging to the legislature in determining success and adequacy of funding levels, was that most objectives didn't allow for measurement of progress or identification and corrective action on challenges. Without this information, the legislature is left with the traditional method of budgeting, where the priorities and the details of what the funding will provide are not specified, and the success in achieving the desired results cannot be determined.

UNDEVELOPED BUDGET PROPOSALS

The executive budget, as submitted, included some proposals that lack sufficient information, accuracy, and detail to evaluate the impact. Statute requires the Legislative Fiscal Analyst to provide an independent analysis of the executive budget, and requires the executive to submit budget information at a specified level of detail. It also requires that the budget be submitted by a specific date with the specified level of detail in order to facilitate an independent analysis and legislative review prior to the start of the legislative session. The LFD has raised the issue with this administration and with prior administrations that the executive budget doesn't provide sufficient explanatory details, hampering the ability of the LFA to perform an independent analysis and the ability of the legislature to get a complete analysis of the executive budget.

Examples of incomplete proposals include:

- A proposal to mitigate the impacts of property tax reappraisal with no explanatory details or proposed tax policy objectives dealing with this issue
- A proposal to issue $21 million in bonds to purchase additional schools trust land without any explanatory details to prepare a cost-benefit analysis
- A proposal to provide funding for school facilities without the specific details on how the program would be operated or what facilities would receive funding
- A pay plan proposal which is required to be included in the November 15 budget proposal, yet for the past decade, statute is most often not followed, with the argument that negotiations with the labor unions are not complete. If statute were

followed, the state and labor unions would comply with the intent to complete negotiations by November 15. The reasons for the argument that negotiations for the pay plan are an exception to the November 15 deadline are unclear

- Fiscal policy proposals that only have various stages of a complete bill draft, with several cases where the legislation does not conform to the numeric amounts in the printed executive budget

The legislature should be aware of the consequences of consistent violation of budget submission deadlines with regard to fully developed and documented proposals, and may wish to consider methods to remedy this issue.

BUDGET RISKS

This section briefly discusses any budget risks that are associated with the executive budget, or with the LFD general fund revenue estimates. Each risk is listed in Figure 11 and is discussed briefly in the narrative that follows. The legislature needs to be aware of these liabilities/risks and may want to consider how these budget risks might be mitigated.

Figure 11

Significant Budget Risks That The Legislature Should Keep in Mind While Crafting a Budget

Economic Volatility

- Revenue estimates may have to be revised during the session because of economic uncertainty
- Budget may not reflect full impacts of an economic downturn
- Revenues may fall significantly after the session

Pension Plans Unfunded Liability

- The dramatic reduction in asset value of public retirement plans will result in increased unfunded liability of the plans
- If the economic recovery is slow, the legislature may have to again supplement the retirement plans

Outstanding Liabilities

- State Fund "Old Fund" liability is the responsibility of the general fund
- State Fund, education lawsuits could affect general fund balance negatively

ECONOMIC VOLATILITY

Revenue estimates may have to be revised in a period of economic volatility and impacts on demands for state services

The most obvious risk to the 2011 budgeting process is the economic conditions that may be forthcoming. The duration and intensity of the current economic recession could affect both revenues and expenditures for the 2011 biennium as well as the 2013 biennium. The revenue estimates have been revised several times to date, and the executive budget would leave a $277 million ending fund balance, by LFD estimates in the advent of further revenue declines.

Budget may not reflect the full impacts of an economic downturn

Demand and eligibility for state services in a recession typically go up because of increased unemployment and a reduction in wage income. As discussed on page 74, the LFD raises the issue that the executive budget as presented may not reflect the potential impacts of an economic downturn on state services, particularly Medicaid and other human services. The LFD also questions on page 75 the ability of this budget to maintain present law services due to some cutback measures included in the budget, including an across the board reduction in vacancy savings. Throughout the session, the legislature will need to be aware of changing economic conditions and the resulting impacts on the services state government provides to its citizens.

Post Session – What Happens if Revenues Fall Significantly?

The executive budget would leave an ending fund balance of $277 million using LFD revenue estimates. Given the volatility of the revenues, the legislature may want to consider how a sizable ending balance should be held in reserve. Under the proposed budget, if revenues fall after the budget is finalized and the session is over, the executive could continue spending by drawing down the reserve. The risk is that spending down the ending balance for ongoing programs can result in a structural imbalance because the ending balance is in essence one-time-only money. The executive would not necessarily be forced to reprioritize for declining revenues. The legislature might want to be an active player in the decision as to the need for reprioritization and service reductions. An alternative would be to establish an adequate ending balance (such as 3 percent of biennium revenues or about $110 million), and set aside the remaining amount in a rainy day account from which only the legislature could appropriate. This would allow the legislature to exercise its constitutional duty and role to determine spending policy and priorities of state government since this is the role of the legislature.

PENSION PLANS UNFUNDED LIABILITY

The dramatic reduction in the asset value of the public retirement plans since September 2008 translates to a troubling increase in the unfunded liability of the plans. The net unfunded liability of the 9 defined benefits pension plans as of June 30, 2008 was $1.457 billion. A rough calculation of the change since June 30 suggests that the unfunded actuarial liability may have doubled since that time (as of this writing). A speedy recovery of the equity markets in the second half of FY 2009 is not anticipated and actuarial valuation reports prepared at the end of June 30, 2009 will likely show at

least some of the plans to be actuarially unfunded. The future is uncertain but if a economic recovery is slow, the legislature may face pressures again to supplement the retirement plans. The legislature provided cash infusions of $175 million general fund in the 2005 and 2007 biennia, and increased employer contributions for the current biennium and beyond for three of the plans.

OUTSTANDING LIABILITIES

Montana State Fund "Old Fund" Liability

Statutes require that when claims for injuries from workers' compensation accidents occurring before July 1, 1990 (Old Fund) are not adequately funded, the general fund must make up the difference. As of June 30, 2008, the estimated liabilities of the "old fund" exceeded assets by $36.5 million. At this time, the Old Fund is projected to have sufficient invested assets to meet its obligations until FY 2011, when an estimated $0.760 million general fund would be needed to offset this shortfall. In FY 2012, the cost is estimated to be $8.0 million. As discussed below, cases currently in the courts may affect both the amount of the liability and how long the fund has sufficient assets to meet its obligations.

State Fund Lawsuit

As discussed above, the state fund "Old Fund" projected shortfall is $36.5 million. In addition, court cases brought against the Montana State Fund (MSF) may increase the general fund liability in the Old Fund by up to $118 million. The largest, *Satterlee,* challenges the constitutionality of terminating disability and rehabilitation benefits when a claimant receives or becomes eligible to receive full Social Security retirement benefits. In December 2008 the Montana Supreme Court issued an order dismissing *Satterlee* without prejudice as two constitutional issues remained for ruling on by the lower court. The Workers' Compensation Court ruled in MSF's favor on both issues. In July 2008 *Satterlee* again appealed the decisions to the Montana Supreme Court. If the statute is ultimately held to be unconstitutional and to apply retroactively, the estimated cost is between $93 and $116 million for the Old Fund.

K-12 Lawsuit

In 2004, a district court judge declared Montana's school finance system to be unconstitutional, holding in part that "the State's school finance system must be based upon a determination of the needs and costs of the public school system, and the school finance system must be designed and based upon educationally-relevant factors." The Supreme Court affirmed the court's determination that the current system violates Article X, Section 1(3) of the Montana Constitution but deferred to the Legislature for the definition of 'quality' as used in that constitutional provision.

The 2005 Legislature passed and the Governor signed SB 152 defining a basic system of free quality schools. In December 2005, the Governor called a special session of the legislature and four new components were added to the K-12 funding formula, costing the state approximately $35.0 million for FY 2007 in ongoing state support and $33.5 million in one-time only funding. Subsequently in 2007, the legislature increased ongoing state support for K-12 for the 2009 biennium by $83.5

million, instituted full-time kindergarten, and instituted one-time only support of $45.0 million.

In February of 2008, the plaintiffs filed a motion in the district court alleging that the state's school funding formula failed to provide adequate funding for FY 2009 In December 2008, the District Court declined to grant any supplementary relief to the plaintiffs. It is not clear yet whether the ruling will be appealed to the Supreme Court, and the state still has the controversy over adequate funding of schools to work out with the schools.

Perspectives on the Economy and Demographics

www.leg.mt.gov/css/fiscal

Perspectives on the Economy and Demographics

SUMMARY

The general outlook for the US and Montana's economy for the next 3 years is bleak. Montana's economy is affected by prices for oil and natural gas, coal and metals. To a large extent though, Montana's economy and state revenues are also affected by national conditions beyond our control. Interest rates, global commodity demand, capital gains, and profits of national corporations are major drivers that determine a large portion of the state's general fund revenues. These and many other, economic indicators are used to forecast revenue for the fiscal period 2009 – 2011. Revenues are forecast to decline from FY 2008 levels in fiscal years 2009 and 2010, but show signs of recovery in FY 2011. If the recession deepens and lengthens, the revenue outlook may even be worse. These economic indicators change as rapidly as the economic climate worldwide. In November, the Revenue and Transportation Interim Committee (RTIC) adopted the Legislative Fiscal Division's (LFD) economic assumptions (except property tax reappraisal) and accompanying revenue estimates. Since that time, economic conditions have deteriorated further and the LFD revenue staff has update the revenues estimate based on changes to key economic indicators. These are indicators are: long and short-term interest rates, wages and salaries, commodity prices, and corporate profits. The following is a summary of these and other assumptions as revised by the LFD.

MAJOR ECONOMIC ASSUMPTIONS USED BY RTIC/LFD

As delineated in Section 5-5-227(2)(a), MCA, the RTIC is required to prepare "an estimate of the amount of revenue projected to be available for legislative appropriation." The estimate and underlying assumptions are intended to be used in any estimation of revenue, including the preparation of fiscal notes. By statute, the LFD assists the revenue and transportation interim committee in performing its revenue estimating duties by submitting its recommendations and assumptions. The Office of Budget and Program Planning also presents the executive's revenue estimates. Although little collaboration took place between the two offices, the three-year general fund revenue estimates were within $1.1 million of each other. However, individual revenue sources, assumptions, and methodologies varied substantially. The RTIC accepted the LFD's estimates, but modified the property tax estimates to exclude the effects of property reappraisal. These official estimates and assumptions are contained in HJ 2, the revenue estimate resolution. Since then, economic events have worsened and both the executive and the LFD have revised their revenue estimates based on the rapidly deteriorating economic conditions.

The LFD revenue staff has changed applicable economic assumptions to reflect the most current data available and recommends the legislature adopt these changes and the resulting estimates of revenue. Following are the major economic assumptions used by the RTIC as modified for the LFD changes, as well as the general economic outlook for the 2011 biennium.

ECONOMIC INDICATORS

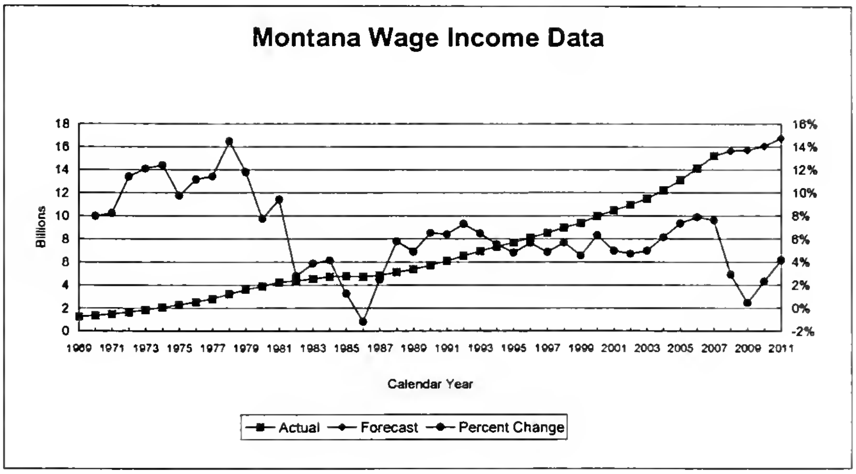
The four major economic assumptions the RTIC used to forecast the state's general fund revenue for FY 2009 – FY 2011 are discussed in detail below. These four are: income, interest rates, corporation indicators, and energy prices.

Income

Montana's income, as measured by gross state product (GSP), is estimated to be $1,588 million in 2008. GSP is projected to grow by 1.8 percent, in real terms, between 2008 and 2011. This rate of growth, as obtained from the most recent Global Insight projections, exceeds expectations for the growth of the gross national product, projected to be 0.9 percent over the same period. Service industries, including professional, business, educational, health, and financial services, are the principal source of income to Montana and currently account for 41 percent of GSP. Since 2000, service sectors have grown in relative importance, from 39 percent of GSP in 2000, and are expected to remain constant in the upcoming biennium, growing only as fast as the Montana economy as a whole. Other industrial groups important to the state's overall income are agriculture, mining, and construction, 12 percent GSP, and governmental activities, 15 percent GSP.

Income as related to state taxes is primarily driven by wages and salaries. The average annual growth in Montana wages and salaries has been 5.9 percent between 1991 and 2007. Wage growth exceeding this average occurred in the early nineties and again in the last four years, 2004-2007. In both these periods inflation was relatively high, i.e. greater than 2.5 percent, and employment growth was relatively high.

Figure 1



With the recent news of an economic recession and in response to rapidly changing economic conditions, the LFD has revised the expectation for wage and salary growth over the 2011 biennium. Because IHS Global Insight has not released a revised Montana-specific forecast, the growth in wages for calendar 2008 though 2011 is calculated as a ratio to the most recent forecasts of national wage growth. As shown in Figure 1, wage growth of only 2.9 percent is expected in calendar 2008, dropping to 0.4 percent in 2009, and rising somewhat to 2.3 percent in 2010 and 4.2 percent in 2011.

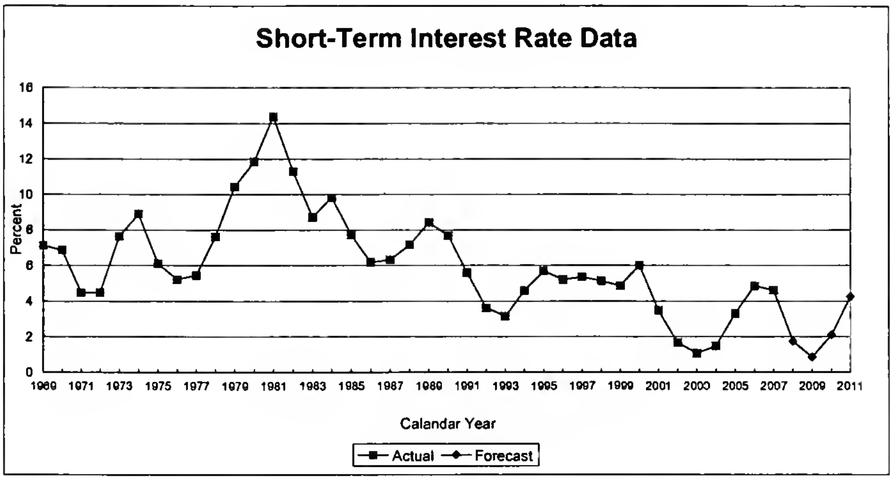
Interest Rates

Interest rates have been highly volatile over the past few years. To a large degree, interest rates are controlled by the Federal Open Market Committee (FOMC). The FOMC can control interest rates by targeting the federal funds rate (the rate banks charge each other for short term loans to meet reserve requirements) for increases or decreases. With the events of September 11, 2001 and the recession that followed, FOMC reduced interest rates. In 2004, with fears of inflation, the FOMC reversed course, causing interest rates to rise. In 2007 and to date, working under the threat of recession, the FOMC started reducing interest rates in hopes of spurring economic growth and providing liquidity to the stalled financial sector.

A large portion of Montana's revenues is derived from investment earnings from trust accounts and daily invested cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. As such, interest rates are a significant assumption when estimating future state revenues, and are fundamental in understanding the climate in which consumers and businesses are likely

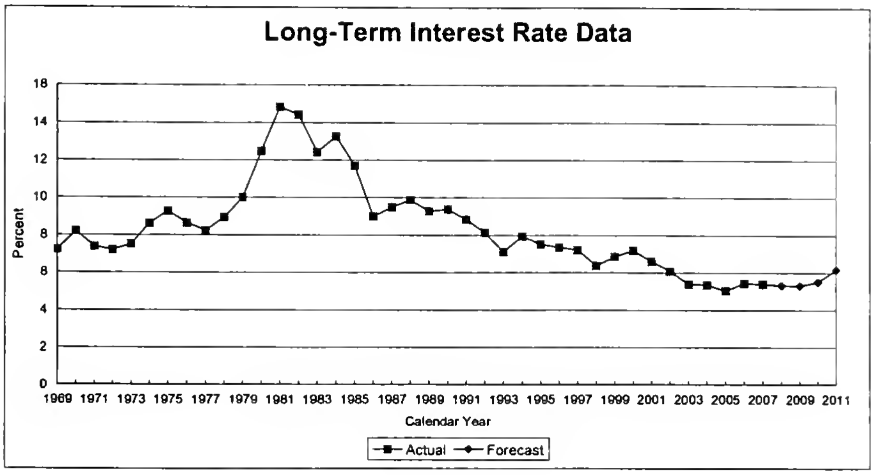
to make investments and large purchases. While low interest rates produce less revenue for Montana's trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase.

Figure 2



Two types of interest rates, long and short-term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments. The forecast rates are obtained from HIS Global Insight. Due to the volatility of interest rates in the evolving recessionary economic climate, interest rate projections have been revised since the rates were approved by the RTIC. Now, HIS Global Insight projects short-term interest rates to decline sharply to about 0.8 percent and then rebound to 4.3 percent by FY 2011, as shown in Figure 2. Long-term rates are expected to remain stable through the 2011 biennium with a modest increase by FY 2011, as shown in Figure 3.

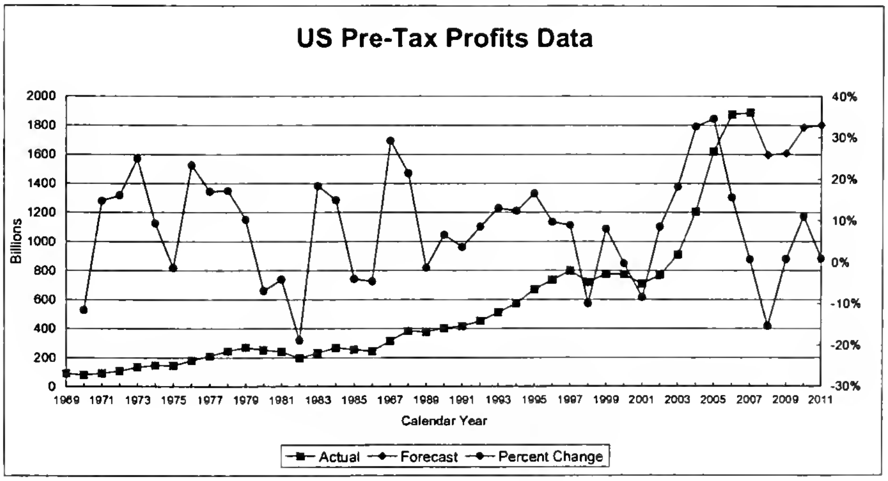
Figure 3



Corporation Indicators

The profitability of corporate America is an important factor in estimating revenues. Corporate profitability affects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of dividends corporations pay to stockholders as well as the value of equity investments.

Figure 4



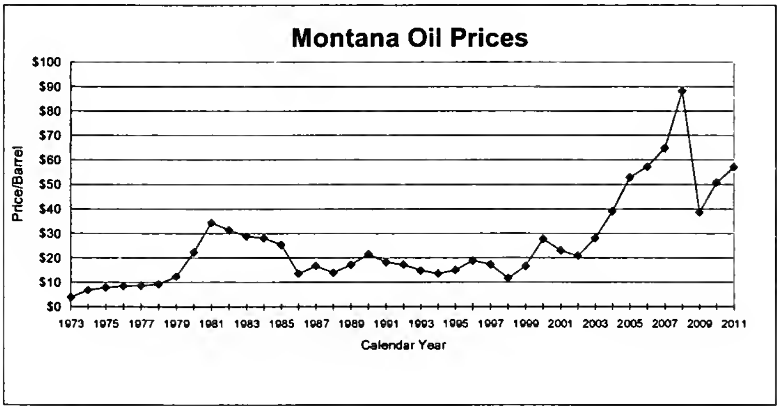
During the most recent years, the reduction of corporate profits has resulted in lower corporate license tax collections. According to IHS Global Insight, between 1990 and 1997, US corporation pre-tax profits increased by an annual average of 10.3 percent. However, from 1997 through 2001, profits decreased by an average of 3.0 percent, the greatest decrease of 8.5 percent occurring in 2001. In 2004 and 2005, corporate

profitability increased by 32.7 percent and 34.5 percent respectively. That trend is not expected to continue, and with the nation in recession, corporate profits are expected to decline substantially. In the most recent estimates provided by Global Insight Forecasting Service, profits are expected to decline by 7.4 percent in 2008 and 8.0 percent in 2009. As shown in Figure 4, corporate profits are expected to resume growth in 2010 and 2011, growing by approximately 5.8 each year.

Energy Prices

Energy prices have been volatile over the past decade. Changes in both supply and demand combine to cause dramatic price variations. For example, oil prices have varied between $12.87 dollars per barrel in the fourth quarter of 1998 and 123.78 dollars per barrel in the fourth quarter of 2008. In 2008, oil prices soared as demand outstripped supply but as the world economy entered recession, prices began to decline. In recent months, the price of oil has made historic declines, and now has been reported to near $30.00 dollars per barrel.

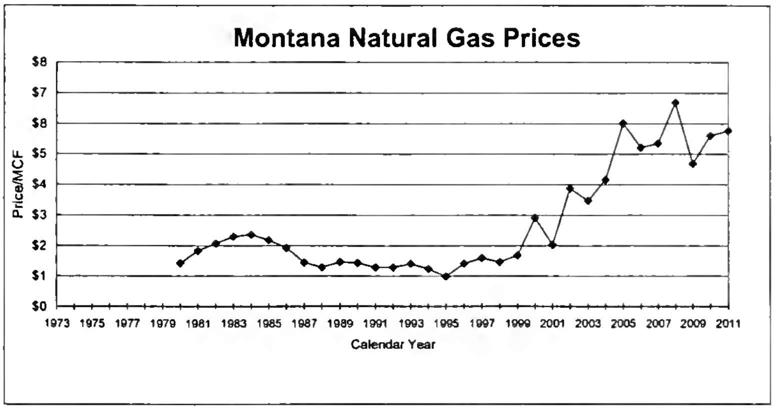
Figure 5



In the most recent IHS Global Insight forecasts, West Texas Intermediate (WTI) oil prices are expected to average $101.22 in calendar 2008, and then drop to $65.89 in calendar 2009. WTI prices are expected to decline to $48.25 and $62.50 per barrel for calendar 2010 and 2011, respectively. While Montana wellhead prices are considerably lower than the WTI price, Montana prices are expected to follow a similar trend.

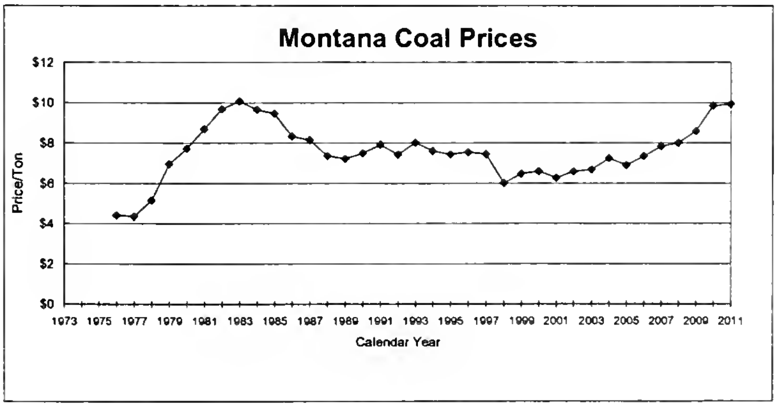
Natural gas prices at the wellhead in the US averaged $4.00 per MCF in calendar 2001 and increased to $6.22 by calendar 2007. IHS Global Insight is forecasting average well head natural gas prices at $7.69 in calendar 2008, $5.66 in calendar 2009, $6.80 in calendar 2010, and $7.27 in calendar 2016. While Montana wellhead prices are usually lower than the US average well head price, Montana prices are expected to follow a similar trend.

Figure 6



Western U.S. coal production, which has grown steadily since 1970, is expected to continue to increase through 2011. Strong growth, combined with limited improvement in coal mining productivity, are expected to result in minemouth price increases of 0.9 percent annually from 2008 through 2011.

Figure 7



Between the years of 1998 and 2006, the Montana price for coal remained relatively constant, but according to recent tax return data, coal prices have started to rise. Montana coal price is expected to increase over the 2011 biennium.

Key Risks to Economic Assumptions

Income – As unemployment increases nationwide and, to a small extent, in Montana, wages and salaries will decline. Since wages and salaries are the largest component of income tax revenue (Montana largest general fund revenue source), even a minimal decline would have substantial impact on general fund revenue.

Interest Rates – The federal funds rate set by the Federal Reserve is now between 0.25 and 0 percent. It cannot get much lower and may increase if inflation shows signs of life. Low rates are a double-edged sword. Low rates may stimulate the economy activity which in turn increases employee and wages and salaries. On the other hand, Montana's earnings from trust funds and excess cash decrease in a fairly quick response to the reduction. Investment income reported for income tax purposes also declines, although this effect is delayed.

Corporate Profits - In light of the current national recession, the greatest risk could be the impact of the net operating loss (NOL) carryback provisions provided in 15-31-119, MCA. A NOL generally occurs when deductions exceed gross income. If for any taxable period a net operating loss is sustained, the loss must first be accounted for as a carryback to each of the three taxable periods proceeding the taxable period of the loss. If the NOL deductions cannot be fully deducted from the prior years, the remaining deductions may be carried forward to each of the five taxable periods following the taxable period of the loss. Typically, the NOL can be fully deducted through the three period carryback. The loss is deducted against taxes that have usually been paid prior to the period of the loss, and refunds are issued for the paid taxes. This situation makes the impact of corporate NOL's on total fiscal year collections appear even greater than they may have been, because much of the effect is realized in the current fiscal year.

Energy Prices – If the global recession deepens and lengthens, demand for energy commodities, primarily oil and natural gas, may be slow to recover or even deteriorate. This could lengthen the time of low prices or depress them even further.

Demographic Trends

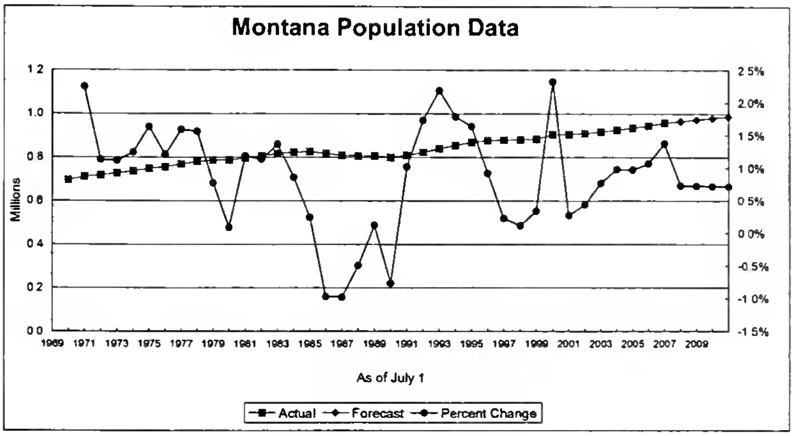
Montana, with a total area of 147,046 square miles, is the fourth largest state. Its population of 957,861 (2007 estimate) places Montana 44th among all 50 states. Montana has 6.6 persons per square mile while the U.S. average is 85.3. A relatively small population in a very large state contributes to Montana being a great place to live, but it also presents many challenges in delivery of government services and in the overall economic well-being of the state.

Population Trends

Montana's population has historically demonstrated slow growth. In the 35 years between 1970 and 2005, the annual rate of growth of the state population was 0.9 percent. However in 2006 and 2007, population growth increased by 43 percent, with annual growth of 1.2 percent. Growth through the next biennium, as shown in Figure 8, is estimated at about 0.7 percent annually.

Population statistics are used to develop estimates for many of the tax revenue sources including beer, wine, liquor, and cigarette taxes. In addition, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide.

Figure 8



Montana's Aging Population Trend

One of the most significant events that is beginning to surface in Montana is the projected increase in the aging population. Between 1940 and 2000, the percentage of Montana's population 65 and over doubled, and it is expected to double again by 2030, when Montana will have the fifth highest percentage of population 65 and older in the nation.

There are a couple factors causing the increasing of the elderly population. First, according to research performed by George W. Haynes, Myles J. Watts, and Douglas J. Young, in a report titled, *Project 2030 Montana's Ageing Population*, the life expectancy at age 65 increased from 13 years to 19 years between 1940 and 2005. Additionally the baby-boomer generation, those born between 1946 and 1965, will soon begin to reach the age of 65, swelling the ranks of the elderly. Montana, like other state and local governments, will need to address the issues relative to changing demographics.

With a growing elderly population, the legislature will need to address how the working-age population can support an older population. Currently, there are 4.3 people of working age to each retiree (person of age 65 and over). This statistic is expected increase substantially by 2030, when there will only be 1.2 people of working age to each retiree. The level of income earned by the retired population and ultimately how much they will pay in taxes could have a substantial impact on state government finances.

A Proposed Study

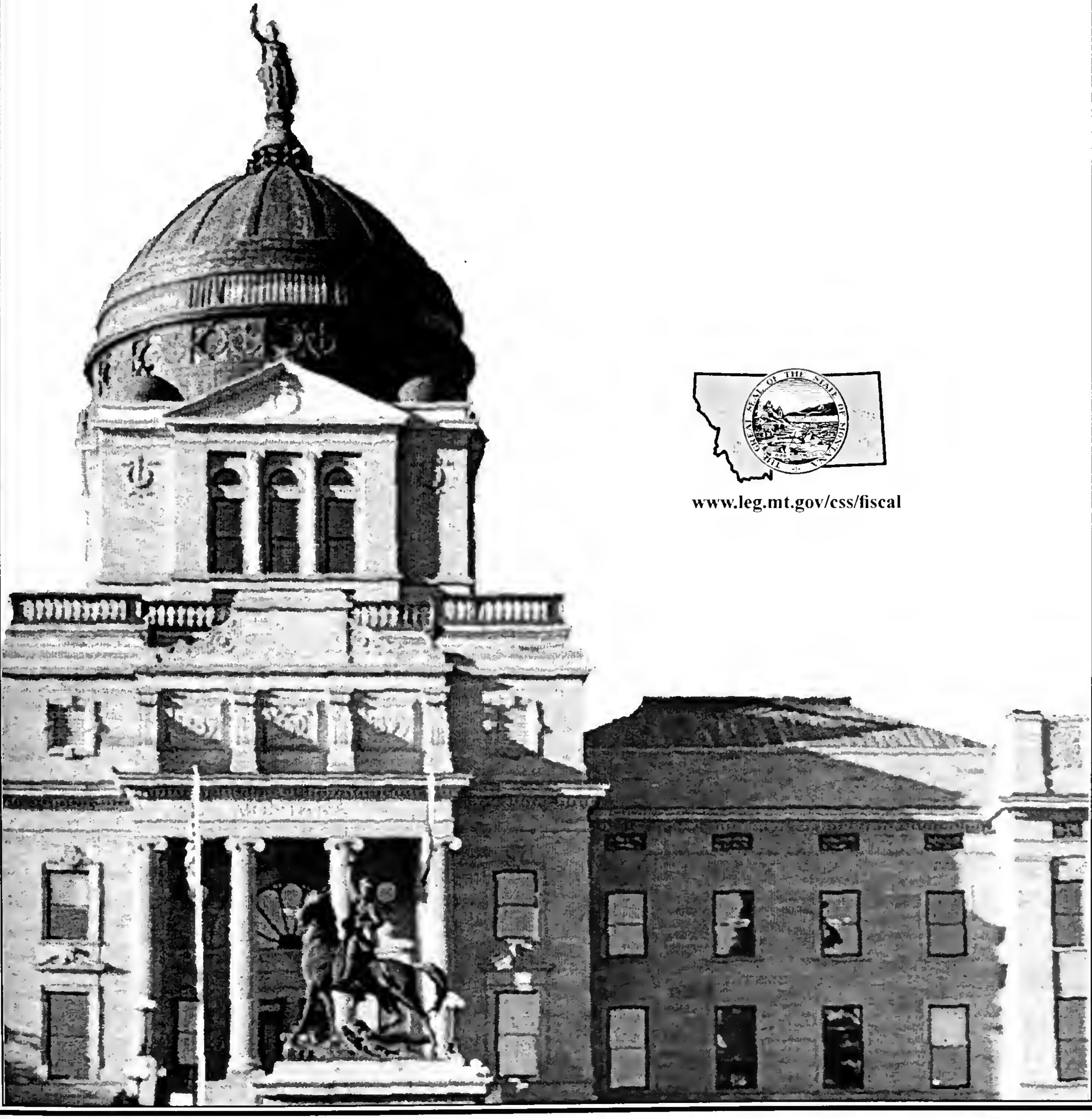
During the 2007-08 interim, the RTIC and the LFC formed a subcommittee to discuss the implications of the aging population. Their work resulted in a study

proposal which is being brought to the legislature via HB 81. This legislation would create an interim committee to conduct a study of the potential long-term effects of demographic, economic, social, and other trends in Montana. State and local governmental programs and services, and state and local revenue systems would be studied.

BUDGETARY IMPACTS

The projected demographic changes have budgetary impacts on both revenues and disbursements. Changes in population directly affect consumption type revenue sources such as cigarettes, liquor, and driver's licenses, but also impacts other tax sources such as income and insurance taxes. As related to state disbursements, the increasing elderly population will require more state provided health related services. The funding of aging services and children's health insurance are two of the primary areas of concern related to demographic changes.

State Revenue Perspectives



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State Revenue Perspectives

SUMMARY

Major revenue source contributors to the state general fund (and interrelated state special funds) are experiencing deep declines from FY 2008 levels. These declines are expected to continue through FY 2010 before increasing, but will still be below the FY 2008 level by FY 2011. Rapidly deteriorating economic conditions statewide, nationwide, and worldwide bodes ill for the revenues that finance many state-provided services. Such unprecedented turmoil also complicates the accurate prediction of future revenues and hence complicates the budgeting process faced by the legislature. Throughout the 2009 legislative session, LFD revenue staff will periodically update the legislature on changing economic conditions and, if warranted, offer recommendations for amending HJ2, the official revenue estimates introduced by the Revenue and Taxation Interim Committee (RTIC). Revenue staff has already revised its revenue estimate assumptions and revenue estimates since the RTIC estimates were adopted, and will recommend these changes to the appropriate legislature committees.

In the sections that follow, the executive's general fund revenue estimates and proposed revenue-related changes are discussed. In addition, the LFD recommended revisions have been added to the estimates contained in HJ 2 and are presented in this section.

THE EXECUTIVE'S GENERAL FUND REVENUE FORECAST

EXECUTIVE BUDGET ASSUMPTIONS AND ESTIMATES

The executive has revised its revenue estimates from those presented to the RTIC in November. The revised executive budget assumptions and resulting revenue estimates are comprised of those adopted by RTIC plus changes in revenue from income taxes, oil and natural gas production taxes, and US mineral royalties. Because the executive did not provide the LFD with the changes in assumptions used to make these changes, an analysis of the differences between the respective offices' assumptions cannot be done for the legislature.

The *Governor's Executive Budget, Fiscal Years 2010 - 2011* projects that Montana state government will receive $3.711 billion in general fund revenue in the 2011 biennium, a decrease of $147.8 million, or 3.8 percent, from the 2009 biennium. The decrease is primarily driven by projected declining economic conditions and revisions to its revenue estimate assumptions. As shown in Figure 1, 76.1 percent of the executive's revenue estimate is comprised of revenue from five major sources.

Figure 1

Executive Revised Revenue Estimate Recommendations - General Fund
Figures in Millions

	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	2009 Biennium	2011 Biennium	Biennial $ Change	Biennial % Change
Individual Income Tax	$866.659	$868.303	$847.404	$855.264	$1,734.962	$1,702.668	($32.294)	-1.9%
Property Tax	205.044	211.495	222.983	228.933	416.539	451.916	35.377	8.5%
Corporation Income Tax	160.342	156.132	136.293	149.352	316.474	285.645	(30.829)	-9.7%
Vehicle Tax and Fees	93.493	95.014	93.748	91.559	188.507	185.307	(3.200)	-1.7%
Oil and Gas Production Tax	149.994	107.951	85.416	113.507	257.945	198.923	(59.022)	-22.9%
Remaining Sources	478.008	466.728	430.601	456.296	944.736	886.897	(57.839)	-6.1%
Total	**$1,953.540**	**$1,905.623**	**$1,816.445**	**$1,894.911**	**$3,859.163**	**$3,711.356**	**($147.807)**	**-3.8%**

PROPOSED REVENUE-RELATED CHANGES

Although the Executive Budget does not include any major tax reform proposals, it does contain proposals that would impact state general fund revenue. As shown in Figure 2 below, these proposals would reduce general fund in FY 2009 by $32.9 million and increase general fund by a net $3.5 million in the 2011 biennium. These proposals include:

- $1.1 million loss in revenue (on-going) due to the earmarking of 9-1-1 fees that would be used for the administration of 9-1-1 statutes. Currently, 3.74 percent of the fees are deposited to the general fund.
- $3.5 million in new revenues (beginning FY 2011) from proposed implementation of a data imaging system to make Department of Revenue's document handling processes more efficient. No details were provided on how the additional revenue would be generated. Efficiencies would save general fund only if the legislature reduced the department's present law appropriations in HB 2. However, as part of the revision to the executive budget, the $3.4 million general fund appropriation in HB 5 necessary to implement this new program was removed. Yet, the anticipated increase in revenue still remains in the budget. The executive's revenue estimates are overstated by $3.5 million.
- $1.1 million in new revenue (one-time) in the 2011 biennium transferred from the cigarette tax account to the general fund. By statute, any balance in the account over $2.0 million at the end of a fiscal year is transferred to the general fund. The revised executive budget removed $1.1 million of new capital projects that had been funded from this account in the original budget. Because of this, the executive assumed that an increase of $1.1 million would occur in the transfer to the general fund. However, since the executive's revised revenue estimates do not include a decrease in the transfer to the general fund due to the new projects, there cannot be an increase in the transfer when the projects are removed. The executive's revenue estimates are overstated by $1.1 million.

- $32.9 million (one-time) reduction in FY 2009. Under current law, the state special revenue fire suppression account established in the September 2007 special session terminates at the end of FY 2009. Any balance in an account terminated by the legislature accrues to the general fund (17-1-504(2), MCA) and the anticipated $32.9 million balance was included in the general fund revenue estimates. The executive proposes legislation to eliminate the termination date, thus eliminating the revenue accrual to the general fund.
- The executive budget includes revenue reductions totaling $17.4 million for the biennium due to property tax mitigation. However, the executive budget does not provide details of the proposal for the LFD to analyze. See "Undeveloped Budget Proposals", page 100.

Figure 2

Executive Tax and Revenue Proposals - General Fund
Figures in Millions

	Proposal	2009 Biennium	2011 Biennium
	Earmark 9-1-1 fees to state special revenue account - reduce general fund		($1.080)
*	Purchase data imagining system - improve DOR document handling		3.500
*	Remove veterans' capital projects - increase transfer from cigarette account		1.124
	Remove termination date from fire suppression account - decrease transfer to GF	($32.915)	
	Property tax mitigation - no proposal or details submitted to the LFD		
	Total	($32.915)	$3.544

* The executive revenues are overstated by these amounts.

THE LFD/RTIC GENERAL FUND REVENUE OUTLOOK

LFD/RTIC FORECAST IS LOWER THAN THE EXECUTIVE BUDGET

The Legislative Fiscal Division is recommending revised assumptions and revenue estimates to the legislature. Although many of the assumptions that were adopted by RITC (contained in HJ2) remain the same, a few major assumptions were changed. These assumptions are: long and short-term interest rates, oil and natural gas prices, corporation sector growth rates, metal prices and production estimates, and income tax factors such as wages and salaries, interest income, dividend income, and capital gains. The recommended revised estimates are lower than those in HJ2 by $29.9 million in the 2009 biennium and $105.2 million in the 2011 biennium. The revenue impacts from the revised assumptions are incorporated in Figure 3. The revised estimate for the 2011 biennium is $129.3 million less than the 2009 biennium estimate. Large decreases occur in the corporation tax, oil and gas production tax, and the remaining sources, but are tempered by increases in the income and property tax sources.

Figure 3

LFD Revised Revenue Estimate Recommendations - General Fund Figures in Millions	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	2009 Biennium	2011 Biennium	Biennial $ Change	Biennial % Change
Individual Income Tax	$866.659	$854.823	$856.291	$880.781	$1,721.482	$1,737.072	$15.590	0.9%
Property Tax	205.044	214.615	226.382	230.363	419.659	456.745	37.086	8.8%
Corporation Income Tax	160.342	154.838	125.911	133.674	315.180	259.585	(55.595)	-17.6%
Vehicle Tax and Fees	93.493	95.014	93.748	91.559	188.507	185.307	(3.200)	-1.7%
Oil and Gas Production Tax	149.994	106.600	84.323	102.825	256.594	187.148	(69.446)	-27.1%
Remaining Sources	478.008	459.851	429.797	454.288	937.859	884.085	(53.774)	-5.7%
Total	**$1,953.540**	**$1,885.741**	**$1,816.452**	**$1,893.490**	**$3,839.281**	**$3,709.942**	**($129.339)**	**-3.4%**

As shown in Figure 4, the LFD revised revenue estimates for the 2009 and 2011 biennia are $19.9 million and $1.4 million lower, respectively, than the revised executive estimates. This is due primarily to lower estimates in corporation income tax, oil and natural gas production taxes, and remaining sources. The remaining sources include LFD downward revisions in both biennia of $6.8 million in metal mines tax revenue and $3.0 million in TCA interest (not shown in the table), sources not revised by the executive. The LFD revised individual income tax revenues are higher than the executive in FY 2010 and FY 2011, but lower in FY 2009. Methodology differences between LFD and OBPP make it difficult to determine the cause of these differences. The executive also did not revise property tax revenue. The LFD revision of this source increased revenue in both biennia by a total of $7.9 million.

Figure 4

LFD vs. Executive Revised Revenue Estimate Recommendations - General Fund Figures in Millions	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	2009 Biennium	2011 Biennium
Individual Income Tax	$0.000	($13.480)	$8.887	$25.517	($13.480)	$34.404
Property Tax	0.000	3.120	3.399	1.430	3.120	4.829
Corporation Income Tax	0.000	(1.294)	(10.382)	(15.678)	(1.294)	(26.060)
Vehicle Tax and Fees	0.000	0.000	0.000	0.000	0.000	0.000
Oil and Gas Production Tax	0.000	(1.351)	(1.093)	(10.682)	(1.351)	(11.775)
Remaining Sources	0.000	(6.877)	(0.804)	(2.008)	(6.877)	(2.812)
Total	**$0.000**	**($19.882)**	**$0.007**	**($1.421)**	**($19.882)**	**($1.414)**

LFD/RTIC FORECAST FOR MAJOR GENERAL FUND REVENUE SOURCES

This section presents the details on five of the major general fund revenue sources that comprise 76.2 percent of the total general fund revenue. Of these major sources, the LFD has revised assumptions for all but vehicle taxes and fees. These revisions are reflected in the information below. Additional details of these and other revenue sources, including assumptions and analytical methods used to estimate each source, can be found in the LFD *Legislative Budget Analysis 2011 biennium, Volume 2 – Revenue Estimates.*

Individual Income Tax

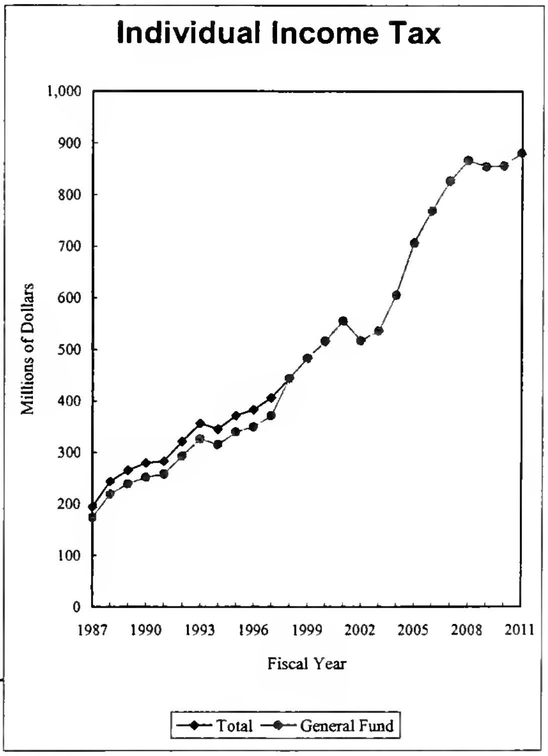
Background

The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits. Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. SB 407, enacted by the 2003 legislature, created a new capital gains income tax credit. As a result, the tax rate on capital gains income is less than the tax rate on ordinary income by 1 percent in tax years 2005 and 2006, and by 2 percent in tax year 2007 and beyond. This source has contributed the following percentages of total general fund revenue:

FY 2004 – 43.82% FY 2007 – 45.04%
FY 2005 – 46.13% FY 2008 – 44.17%
FY 2006 – 45.01%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1987	194.676947	173.262483	Not App.
A	1988	243.768721	219.241292	26.54%
A	1989	265.539814	238.963596	9.00%
A	1990	279.642960	252.230465	5.55%
A	1991	282.960086	258.216424	2.37%
A	1992	321.538093	293.564151	13.69%
A	1993	356.986934	326.187735	11.11%
A	1994	345.643403	315.677433	-3.22%
A	1995	371.902909	339.939156	7.69%
A	1996	383.091612	350.161013	3.01%
A	1997	406.275740	371.275410	6.03%
A	1998	444.160729	444.160729	19.63%
A	1999	483.031571	483.031571	8.75%
A	2000	516.261912	516.261912	6.88%
A	2001	556.014554	556.014554	7.70%
A	2002	517.567691	517.567691	-6.91%
A	2003	535.830664	535.830664	3.53%
A	2004	605.582309	605.348420	12.97%
A	2005	707.343333	706.234579	16.67%
A	2006	768.922343	768.922343	8.88%
A	2007	827.145498	827.145498	7.57%
A	2008	866.659000	866.659000	4.78%
F	2009	854.823000	854.823000	-1.37%
F	2010	856.291000	856.291000	0.17%
F	2011	880.781000	880.781000	2.86%



Forecast Factors

The income tax forecast for fiscal years 2009 through 2011 is comprised of four steps: 1) collect calendar year 2007 income data from the tax returns, 2) develop calendar growth factors for each income and deduction component and apply to the base components in the 2007 income tax data, 3) convert calendar year data to fiscal year data, and 4) adjust the resulting fiscal year data for audits, credits, legislation and other special events.

In November 2008, the Revenue and Transportation Interim Committee met and developed the assumptions and the resulting revenue forecast for all state revenues. Many of the income tax growth factors were based on IHS Global Insight October forecasts for wages and salaries, interest income, dividend income, capital gains, retirement income, business income as well as other income tax items.

The forecast also contained estimates of income tax audits, credits and adjustments for: 1) the one-time $400 property tax rebate which occurred in 2007; 2) the one time $140 property tax credit which was claimed in April 2008; 3) excess refunds in FY 2008; 4) the acceleration of income revenues by the withholding of mineral royalties in FY 2008; and 5) other minor legislative impacts.

The November IHS Global Insight economic forecasts contained major downward revisions in the growth factors used to forecast Montana income tax. As a result the LFD applied some of these lowered growth rates to revise its estimate of individual income tax.

The latest income tax growth estimates reflect downward revisions in wage and salary income, interest income, dividend income, and capital gains. These revisions, compared to RTIC assumptions, are shown in the following table.

Figure 5

Revised Income Tax Growth Factors Compared with RTIC Growth Factors												
	Wages and Salaries			Interest Income			Dividend Income			Capital Gains		
Calendar Year	RTIC	Revised	Difference	RTIC	Revised	Difference	RTIC	Revised	Difference	RTIC	Revised	Difference
2008	4.53%	2.90%	-1.63%	1.14%	0.53%	-0.61%	6.09%	6.68%	0.59%	-16.32%	-17.62%	-1.30%
2009	2.29%	0.43%	-1.86%	-1.46%	-3.91%	-2.45%	-1.18%	-0.57%	0.61%	-17.35%	-19.44%	-2.09%
2010	3.09%	2.32%	-0.77%	-1.42%	-1.00%	0.42%	1.33%	0.33%	-1.00%	11.63%	14.80%	3.17%
2011	3.41%	4.16%	0.75%	8.05%	9.44%	1.39%	3.06%	2.47%	-0.59%	13.60%	13.78%	0.18%

All other assumptions in developing the income tax forecast are the same as in the RTIC estimate in November. These can be found on page 41 in the LFD *Legislative Budget Analysis 2011 biennium, Volume 2 – Revenue Estimates.*

Property Tax

Background

Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills, and 6 mills for the university system against

all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vocational technology (vo-tech) college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate. Property valued at market value includes personal property, utility property, railroad and airline property, and mineral net and gross proceeds. The assessed value of residential and commercial real estate is the market value phased in over the reappraisal cycle. Agricultural land and timberland are valued on a productivity basis and their values are also phased in over the reappraisal cycle. The last reappraisal cycle took effect January 1, 2003 and the next reappraisal will take effect January 1, 2009. Beginning January 1, 2009, a new reappraisal of residential and commercial property, agricultural land and timberland will be available. As of this writing, the data on the new reappraisal are not available. The revenue estimate for property tax does not include an estimate for the change in market values due to reappraisal. The new reappraised values will be phased in over the next six years, FY 2010 through FY 2015. Unless changed by the legislature, the tax rates and exemptions will be constant at the levels for FY 2009.

In addition to the tax on property, this revenue component includes collections from "non-levy" sources that are distributed on the basis of mills levied by taxing jurisdictions. These non-levy sources include the state share of coal gross proceeds taxes, federal forest revenues, and other smaller revenue sources.

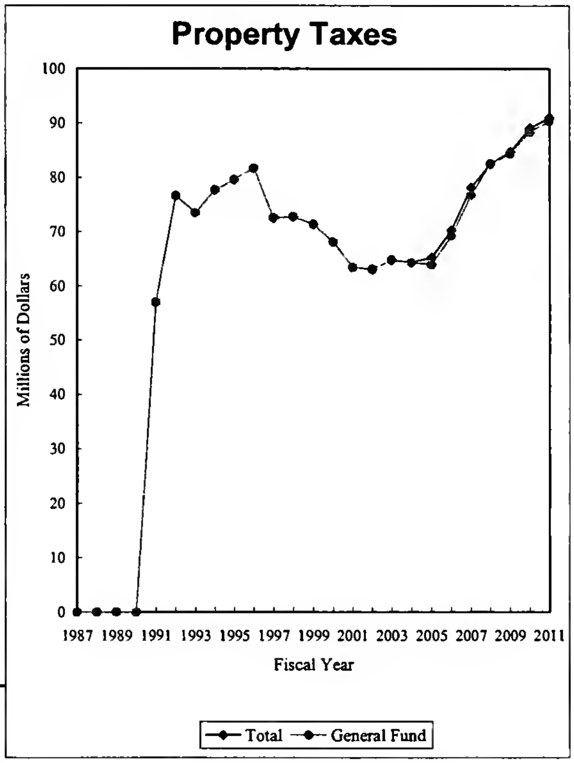
This source also includes the state's share of protested taxes paid by centrally assessed companies. Should the state fail in defense of the taxation of these companies, the protested taxes must be returned to the taxpayer.

This source has contributed the following percentages of total general fund revenue:

FY 2004 – 12.27 %
FY 2005 – 10.93%
FY 2006 – 10.4%
FY 2007 – 10.74%
FY 2008 – 11.53%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1987	128.225413	128.225413	Not App.
A	1988	111.111138	111.111138	-13.35%
A	1989	114.444609	114.444609	3.00%
A	1990	133.619694	112.374543	-1.81%
A	1991	196.551532	176.154583	56.76%
A	1992	228.220531	206.138029	17.02%
A	1993	231.757476	207.646372	0.73%
A	1994	223.577122	202.381945	-2.54%
A	1995	226.944990	205.842671	1.71%
A	1996	226.234755	204.082588	-0.86%
A	1997	231.943080	209.284365	2.55%
A	1998	224.562154	202.350380	-3.31%
A	1999	225.681256	202.774979	0.21%
A	2000	215.866432	194.196158	-4.23%
A	2001	201.103545	180.050247	-7.28%
A	2002	181.923409	169.339388	-5.95%
A	2003	183.690786	171.679862	1.38%
A	2004	180.905286	169.530994	-1.25%
A	2005	182.587822	167.270350	-1.33%
A	2006	192.118042	177.639199	6.20%
A	2007	206.872427	190.981939	7.51%
A	2008	218.222981	205.043751	7.36%
F	2009	229.004000	214.615000	4.67%
F	2010	242.668000	226.382000	5.48%
F	2011	246.913000	230.363000	1.76%



Forecast Factors

The property tax forecast for fiscal years 2009 through 2011 is comprised of five steps: 1) collect the latest base year data, in this case FY 2009 taxable values, 2) apply taxable value growth rates to the base data for fiscal years 2010 and 2011 and sum across property classes, 3) forecast statewide tax increment financing values and abatement values and adjust the statewide taxable value forecast by these values, 4) for the general fund, apply the state 95 mills, to the net statewide taxable value and 5) subtract one-half of the forecast for protested taxes. The same procedure is applied for the 1.5 mill vo-tech levy which is also deposited in the general fund and the 6 mill university levy which is deposited in the university account. The 1.5 mill vo-tech levy is applied to the net taxable values in the five vo-tech counties.

In fiscal 2010, new reappraisal values for residential and commercial property, agricultural land, and timberland will be available. Preliminary estimates are that these properties will increase in value by anywhere from 35 percent to 56 percent above those in FY 2009, although the variation in individual jurisdictions may be much lower or higher.

Since the RTIC meeting in November, new FY 2009 property tax values have been received. Compared to the preliminary data, the new taxable values showed an increase in class 2, gross proceeds, and class 8, business equipment. In addition, two events impacted the level of protested taxes: 1) Northwestern settled its case with the state and the Supreme Court ruled for Omimex in its protested taxes suit over the proper classification of its pipeline properties. As a result of these two cases, the general fund in FY 2009 will receive increased revenue as a result of transfers from the protested account to the general fund in the Northwestern case, but will pay a refund out of the general fund to Omimex. For the 2011 biennium, protested taxes will be lower as each company is not expected to protest their taxes.

As a result of these changes, the current property tax revenue estimates for fiscal years 2009 through 2011 are $7.9 million above those adopted in November by the RTIC.

Corporation Income Tax

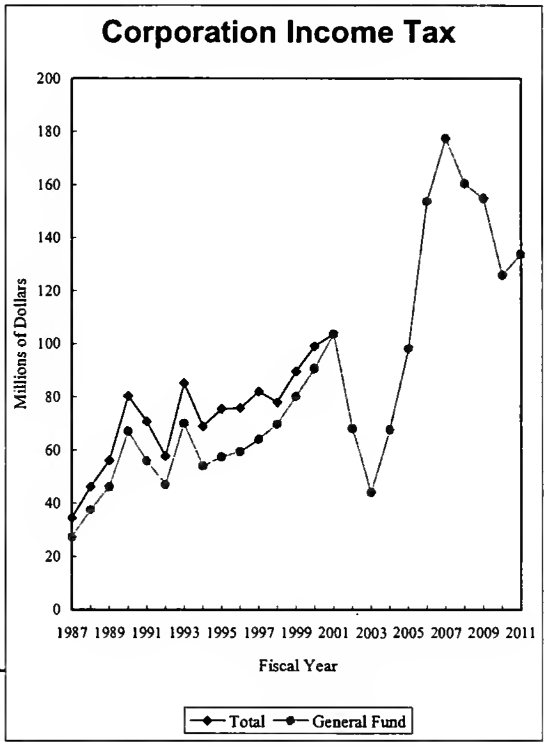
Background

The corporation income tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation income tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all tax liability is adjusted for allowable credits. The tax rate is 6.75%, except for corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income. This source has contributed the following percentages of total general fund revenue:

FY 2004 - 4.90%
FY 2005 - 6.42%
FY 2006 - 9.00%
FY 2007 - 9.67%
FY 2008 - 8.17%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1987	34.566361	27.371125	Not App.
A	1988	46.200104	37.584806	37.32%
A	1989	56.139749	46.152627	22.80%
A	1990	80.315504	67.087905	45.36%
A	1991	70.784279	56.006784	-16.52%
A	1992	57.682672	47.027797	-16.03%
A	1993	85.054483	70.003987	48.86%
A	1994	68.871909	53.996713	-22.87%
A	1995	75.519940	57.425136	6.35%
A	1996	75.761891	59.336677	3.33%
A	1997	81.999138	64.078549	7.99%
A	1998	77.928498	69.724680	8.81%
A	1999	89.624560	80.142416	14.94%
A	2000	99.088867	90.682672	13.15%
A	2001	103.670487	103.670487	14.32%
A	2002	68.173253	68.173253	-34.24%
A	2003	44.137518	44.137518	-35.26%
A	2004	67.722940	67.722940	53.44%
A	2005	98.213716	98.213716	45.02%
A	2006	153.675068	153.675068	56.47%
A	2007	177.503707	177.503707	15.51%
A	2008	160.341786	160.341786	-9.67%
F	2009	154.838000	154.838000	-3.43%
F	2010	125.911000	125.911000	-18.68%
F	2011	133.674000	133.674000	6.17%



Forecast Factors

The corporation tax is extremely reactive to national economic swings. Historic collection patterns demonstrate that in periods of national recession, Montana corporate tax revenues decline for two to three years. Through the 2011 biennium, with a national economy in the midst of recession, the Montana corporation tax is expected to experience significant declines. The current recession has created a significant level of uncertainty in the national economy, causing changes in the projections used in development of the estimates approved by the RTIC.

To estimate corporation tax collections, corporation tax payment data, provided by the Department of Revenue, is disaggregated based on corporate industrial sector, allowing analysis of specific components of the corporate landscape. Then, each sector can be analyzed, measured, and forecast individually. Through this methodology, the profitability changes inherent in highly volatile sectors can be captured. For example, the profitability of Montana's large and volatile natural resource corporations is highly reactive to commodity prices, and the volatility affects the corporation tax payments of oil and gas, energy, mining, and timber corporations.

To develop the estimate for the corporation income tax, the sector growth rate is applied to the most recent tax year collections, 2007. The industrial sectors are then summed to provide an estimate for the tax year corporation tax liabilities. Because the industrial sector estimates are based on a tax year analysis, but are paid in a state fiscal year, payment timing must be taken into consideration. The estimated tax year payments of two years are distributed between two fiscal years, 60:40, to obtain the fiscal year liability ($0.6 \times TY_1 + 0.4 \times TY_2 = FY_2$).

As implied above, the LFD has prepared a revised estimate of corporation tax collections. The revisions are less than the estimate approved by the RTIC by \$1.3 million in the 2009 biennium and \$26.1 million in the 2011 biennium.

Vehicle Tax

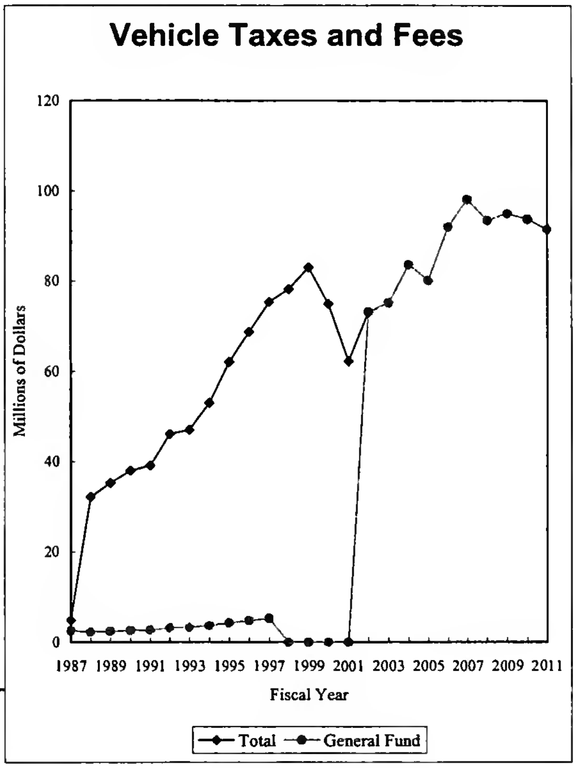
Background

Light vehicles, motorcycles and quadricycles, snowmobiles, buses, trucks, and truck tractors having a manufacturer's rated capacity of more than 1 ton, motor homes, and certain trailers and travel trailers are taxed under a fee schedule that varies by age and weight. The fee for light vehicles is \$195 for ages between zero and four years, \$65 for vehicles between five and ten years of age, and \$6 for vehicles over ten years old. Owners of vehicles greater than ten years old may pay \$87.50 (plus other applicable fees) for a permanent registration. The fee schedule for trucks varies by age and weight capacity. The fees-in-lieu-of-tax on motorcycles and quadricycles, trailers and travel trailers, snowmobiles, watercraft, off-highway vehicles are one-time payments, except upon change of ownership. This source has contributed the following percentages of total general fund revenue:

FY 2004 – 6.05% FY 2007 – 5.51%
FY 2005 – 5.23% FY 2008 – 5.26%
FY 2006 – 5.39%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1987	8.213142	2.608426	Not App.
A	1988	36.271740	2.255149	-13.54%
A	1989	40.139702	2.471472	9.59%
A	1990	44.232002	8.869602	258.88%
A	1991	46.947105	10.582218	19.31%
A	1992	56.247735	13.378654	26.43%
A	1993	56.358436	12.670105	-5.30%
A	1994	62.629657	13.424539	5.95%
A	1995	71.925382	14.238226	6.06%
A	1996	78.442141	14.605759	2.58%
A	1997	85.645500	15.588374	6.73%
A	1998	88.988649	10.778306	-30.86%
A	1999	94.058206	11.053035	2.55%
A	2000	86.666587	11.715716	6.00%
A	2001	74.720471	12.548251	7.11%
A	2002	100.548823	100.398624	700.10%
A	2003	104.092316	103.537563	3.13%
A	2004	115.208780	114.330455	10.42%
A	2005	111.494279	110.771948	-3.11%
A	2006	114.000647	113.292384	2.28%
A	2007	117.211161	116.471506	2.81%
A	2008	113.108912	112.487931	-3.42%
F	2009	114.902000	114.241000	1.56%
F	2010	114.369000	113.717000	-0.46%
F	2011	111.967000	111.330000	-2.10%



Forecast Factors

With constant tax rates, the future change in vehicle tax revenue results from change in the vehicle stock in Montana. Because tax payments are directly connected to the number of vehicles in the state, estimates for the revenues are made by applying estimated growth rates to the previous year revenue. Growth rates for the stock of Montana vehicles are derived by obtaining IHS Global Insight estimates for the national vehicle stock and new car sales nationwide and for Montana. A ratio is then developed to project the stock of Montana vehicles. An average of the Montana stock in the current and previous years is used in this estimate from which growth between two years is calculated. For the estimated period, growth is expected to increase in FY 2009, but decline in the following years. The growth rate is applied to the base year (fiscal 2008) revenues of each tax category and projected for all estimated fiscal years based on the stock ratio for Montana.

Oil and Natural Gas Production Tax

Backgound

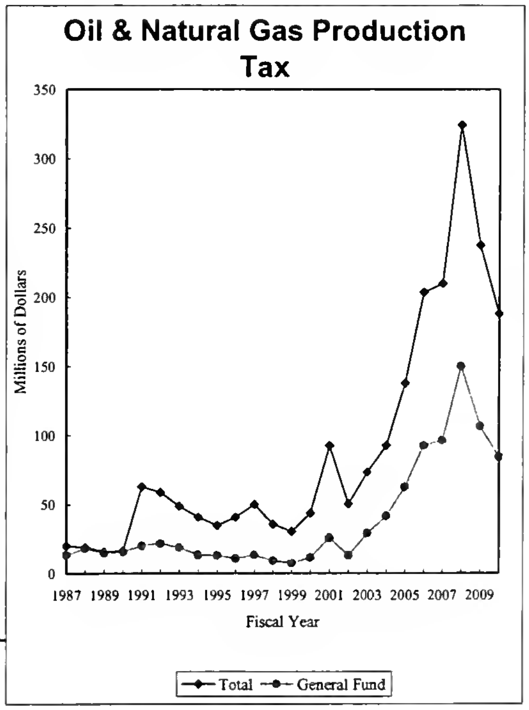
The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. Gross taxable value of oil and natural gas production is based on the type of well and type of production.

The oil and natural gas production tax has numerous tax rates depending on several factors. These factors include whether the oil or gas is produced from a stripper well, a stripper incentive well, from a well initially drilled before 1999 or after, from a well newly drilled within the last year or 18 months, and whether the interest being taxed is the working interest or the royalty interest. The Board of Oil and Gas Conservation imposes an additional privilege and license (P & L) tax on all oil and natural gas tax rates. Starting October 2006 as set by the Board, the P&L tax rate is 0.09 percent. Based on this rate, HB 758 enacted by the 2005 legislature allows an additional tax rate of 0.17 percent to generate revenue for local impacts for local governments. The two taxes may not exceed 0.3 percent. This source contributed the following percent of total general fund revenue:

FY 2004 – 2.99% FY 2007 – 5.25%
FY 2005 – 4.09% FY 2008 – 7.64%
FY 2006 – 5.42%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1987	19.904239	13.254877	Not App.
A	1988	18.913097	17.975582	35.61%
A	1989	15.748241	14.959251	-16.78%
A	1990	16.486405	15.567426	4.07%
A	1991	62.879742	20.163269	29.52%
A	1992	58.892324	21.822893	8.23%
A	1993	48.650604	18.676586	-14.42%
A	1994	40.871318	13.403408	-28.23%
A	1995	34.704332	12.963887	-3.28%
A	1996	40.826475	10.665986	-17.73%
A	1997	50.150068	13.283093	24.54%
A	1998	35.709042	9.120152	-31.34%
A	1999	30.446634	7.505617	-17.70%
A	2000	43.772950	11.362741	51.39%
A	2001	92.395790	25.791723	126.99%
A	2002	50.303610	12.902439	-49.97%
A	2003	73.389376	29.086038	125.43%
A	2004	92.676050	41.323718	42.07%
A	2005	137.754331	62.625939	51.55%
A	2006	203.681078	92.562800	47.80%
A	2007	209.946350	96.334992	4.08%
A	2008	324.311270	149.993826	55.70%
F	2009	237.622000	106.600000	-28.93%
F	2010	187.964000	84.323000	-20.90%
F	2011	229.208000	102.825000	21.94%



Forecast Factors – Oil

Data from the Board of Oil and Gas Conservation are used extensively to isolate monthly historical production of oil and natural gas by field and by individual well. IHS Global Insight provides future estimates of West Texas Intermediate oil and national well head natural gas prices. Production, price, value, and revenue collections, by oil type, are provided on a quarterly basis by the Department of Revenue. The oil production estimate is developed on a quarterly basis with production from the Elm Coulee field separate from all other production. A normalized production decline curve from every producing well in the field is developed. Future production from completed wells is estimated by developing a curve that represents the average production of wells in the Elm Coulee field by month of production. Production from all other fields is also estimated on a quarterly basis and by the different taxation types based on historical production. The price for each quarter is estimated by adjusting the IHS Global Insight West Texas Intermediate oil price for that quarter by the ratio of the previous three year average Montana price to the three year average of the IHS Global Insight price.

Forecast Factors - Natural Gas

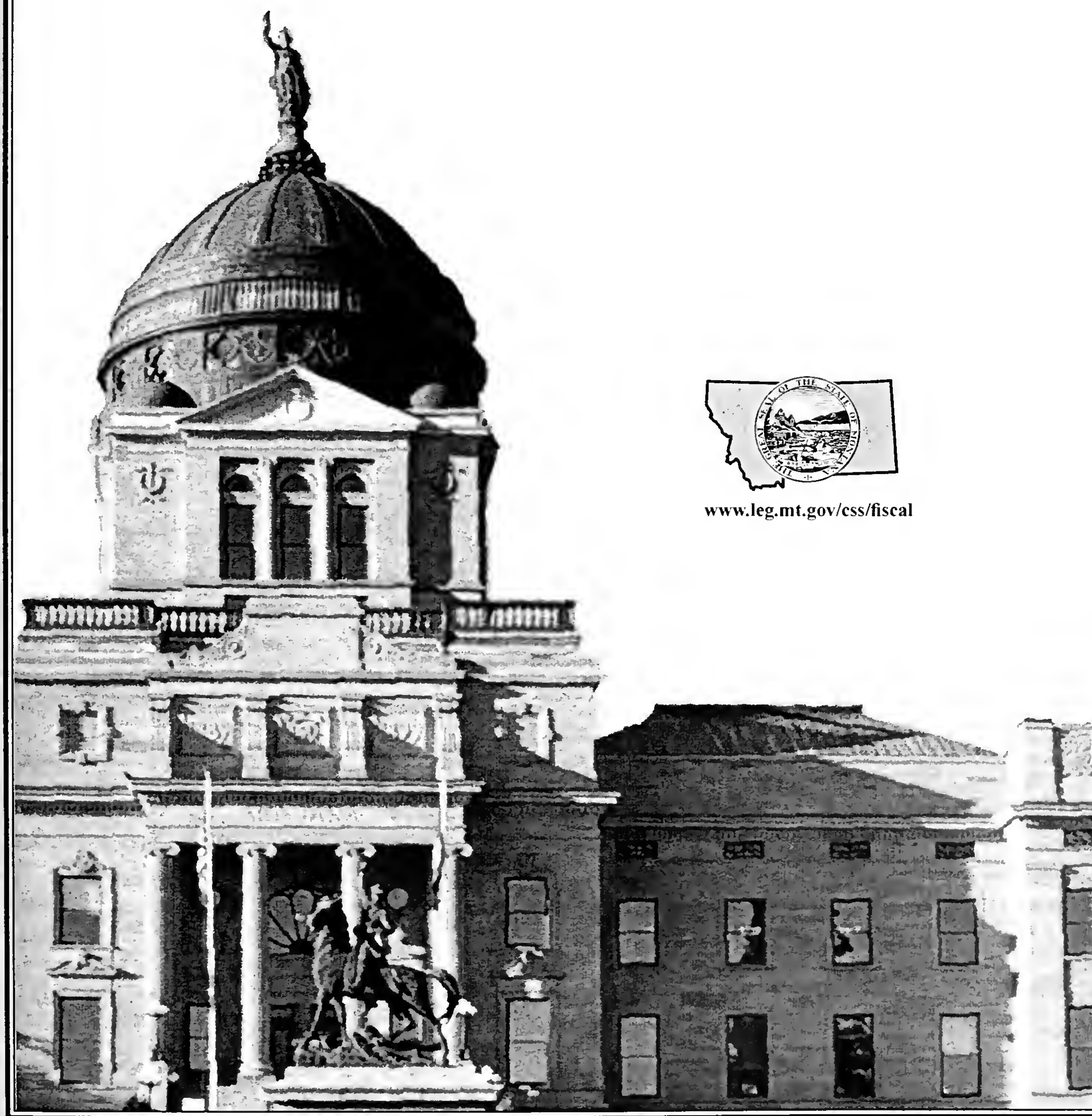
Similar to oil, a normalized production curve is developed for each of the major gas fields: St. Joe Road, Pennel, CX, Tiger Ridge, Bowdoin, and Cedar Creek. Future production from these fields can be estimated based on the resulting curve that represents the average production of wells by month of production. Production from all other fields is also estimated on a quarterly basis and by the different taxation types based on historical production. The price for each quarter is estimated by adjusting the IHS Global Insight national well head price for that quarter by the ratio of the previous three year average Montana price to the three year average of the IHS Global Insight price.

The LFD revisions to this source incorporate the latest IHS Global Insight prices for oil and natural gas adjusted to reflect Montana prices. The revisions are less than the estimate approved by the RTIC by $10.2 million in the 2009 biennium and $18.1 million in the 2011 biennium.

All Remaining General Fund Revenue

The remaining general fund revenue sources in the 2011 biennium constitute 23.8 percent of the total. For detailed information on all the remaining general fund and selected state special revenue sources, see the LFD *Legislative Budget Analysis 2011 biennium, Volume 2 – Revenue Estimates.*

State Expenditures Perspectives
Overview of State Expenditures



www.leg.mt.gov/css/fiscal

State Expenditures Perspectives

PART ONE – AN OVERVIEW OF STATE EXPENDITURES

This chapter provides a high level categorization of total proposed spending in the 2011 biennium. The total budget is comprised of four appropriation categories: 1) the general operations of state government (predominantly requested in the general appropriations act (HB 2); 2) capital projects; 3) statutory appropriations and transfers; and 4) miscellaneous appropriations. This chapter includes the following:

- The big picture – proposed spending by fund source/function
- A further examination by appropriation category
  - Proposed budget for the general operations of state government (HB2)
  - Long Rang Planning projects
  - Statutory appropriations and transfers
  - Miscellaneous expenditures (cat and dog bills)
- A historical perspective on general fund spending

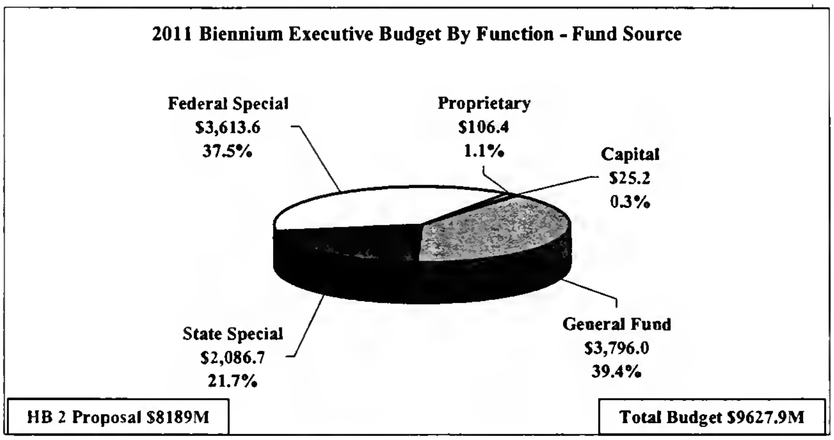
The following chapter, Part Two of state expenditure perspectives, will discuss the specifics of major expenditure proposals in the executive budget.

THE BIG PICTURE – PROPOSED SPENDING ALLOCATION BY FUND SOURCE/FUNCTION

EXECUTIVE PROPOSED SPENDING BY FUNDING SOURCE

Figure 1 shows the executive proposal allocated by funding source. As shown, general fund comprises the largest share. Because general fund grows at a higher rate than federal funds in the proposed budget, its share of the total has grown slightly from the 2009 biennium.

Figure 1



EXECUTIVE PROPOSED SPENDING BY FUNCTION

Figures 2 and 3 show the executive budget by function for the general operations of state government and by appropriation type for the remaining budget items.. Figure 2 shows the total executive budget from all fund sources. As shown in Figure 2, K-12 (public) education, human services, and "other agencies" (primarily due to transportation and various environmental and wildlife expenditures), consume the largest share of the total funds budget at 75.9 percent.

Figure 2

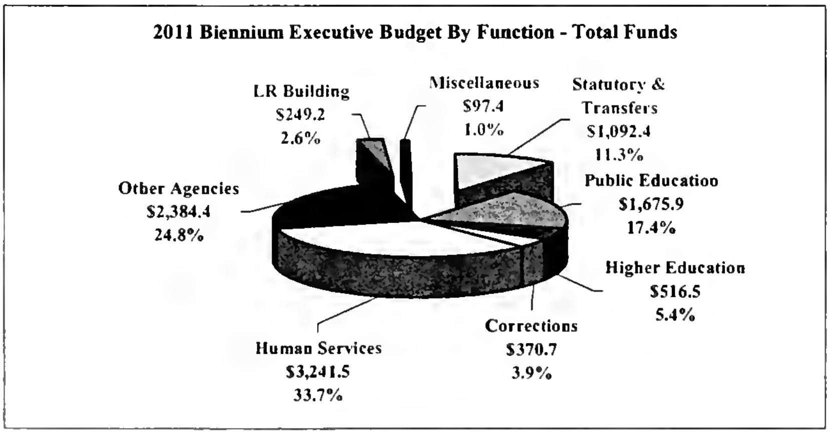
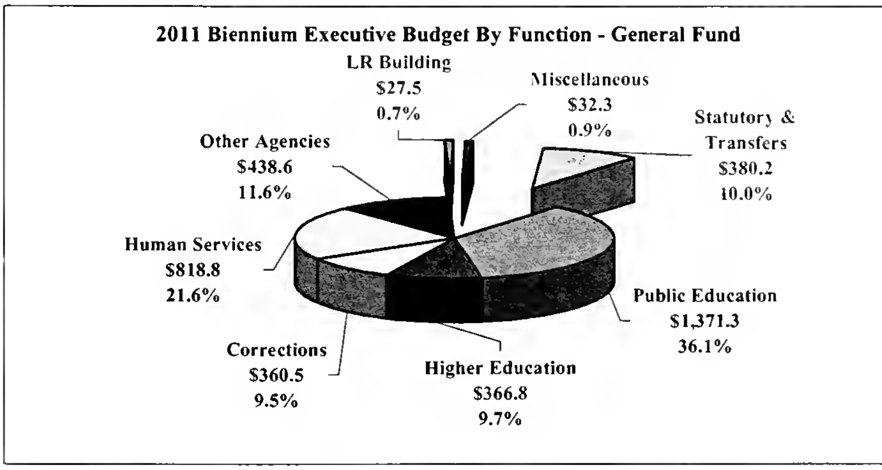


Figure 3 shows the general fund budget proposed by the executive. As shown, the largest expenditures are made for K-12 and higher education, human services, "other agencies", statutory appropriations and transfers, which comprise almost 79.3 percent of the budget.

Figure 3



A FURTHER EXAMINATION - THE EXECUTIVE BUDGET PROPOSAL BY APPROPRIATION CATEGORY

This section proves further detail on the executive budget proposal, broken down by each of the functional and appropriation source categories shown in Figures 2 and 3. Over 88 percent of the total executive budget is contained in HB 2, the general appropriations act, which includes the general operating budget of state agencies. These proposals are summarized by programmatic function shown in Figures 2 and 3 (public and higher education, corrections, human services, and other, beginning on page 46. Long-range planning is summarized on page 53 and in Section F of Volume 7. Statutory appropriations are discussed further beginning on page 55. "Miscellaneous Expenditures", which includes the pay plan bill and all bills other than HB 2, are listed beginning on page 67.

PROPOSED BUDGET IN HB 2 – GENERAL OPERATIONS OF STATE GOVERNMENT

HB 2 contains over 88 percent of the total budget proposals in the executive budget. Figure 4 shows the allocation of total or all funds for ongoing expenditures in HB 2, by function, with education and human accounting for about two-thirds of the total.

Figure 4

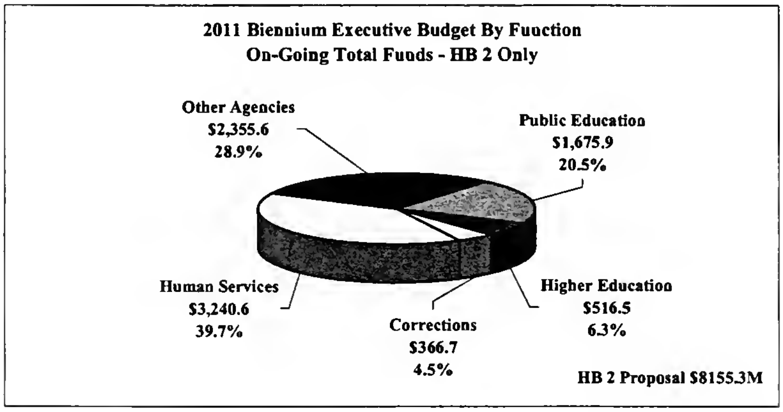
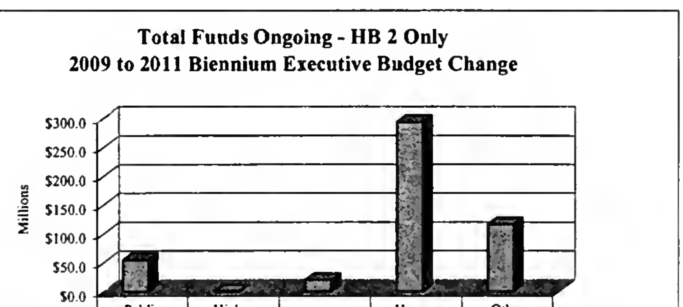


Figure 5 shows the increase from the 2009 to the 2011 biennium proposed executive budget for ongoing expenditures of all funds, by function. As shown, increases are dominated by human services and "other agencies", which is comprised of all state government except education, human services, and corrections. Major increases in those agencies include transportation funding, environmental remediation, and other federal grants, including homeland security grants.

Figure 5



	Public Education	Higher Education	Corrections	Human Services	Other Agencies
Change	$54.7	$0.3	$19.8	$293.4	$116.3
% Change	3.37%	0.06%	5.71%	9.96%	5.19%

Present Law vs. New Proposals

Figure 6 shows the allocation between present law increases and new proposals for all funds in HB 2. Please note that, for purposes of clarity and scale, one-time-only proposals are included, explaining a difference between this figure and Figure 4.

As shown, over 87 percent of proposed expenditures are for the base, with the greatest majority of increases for present law adjustments.

Figure 6

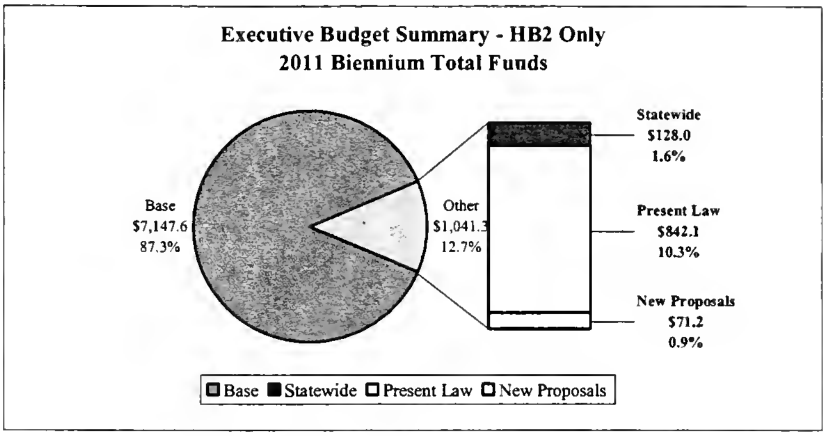
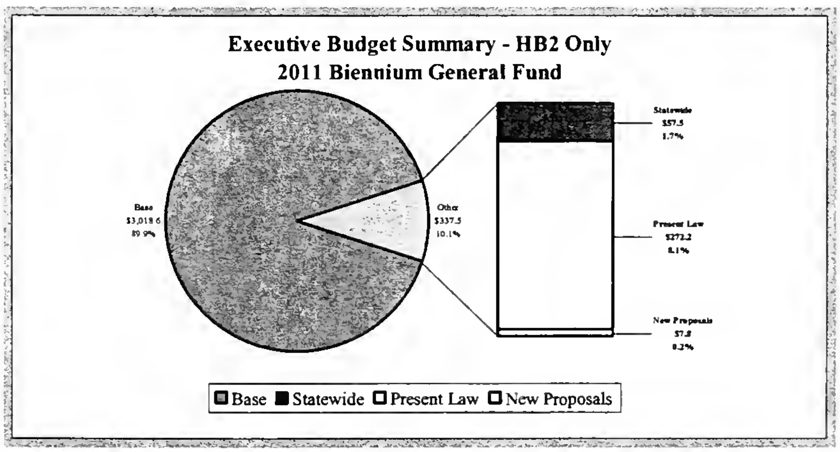


Figure 7



This is even more striking with general fund, where base expenditures are almost 90 percent of the total executive budget. Because the executive makes certain reductions to present law in negative new proposals, present law is overstated and new proposals are understated. General fund for ongoing new proposals is actually a negative $3.9 million.

Significant present law increases include:

- A 3 percent per year increase in Base aid schedules and maintenance requirements for special education for K-12
- Medicaid caseload and utilization increases
- Implementation of the Healthy Montana Kids initiative (I-155)
- Corrections population increases and annualization of programs begun in the 2009 biennium
- Statewide present law adjustments

- Environmental remediation

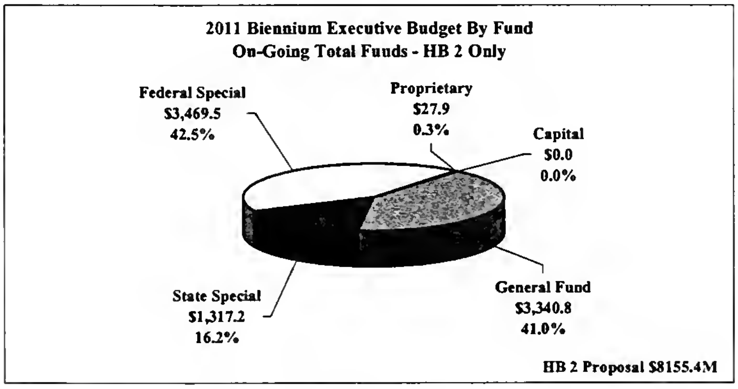
Among the limited new proposals are the following. As stated above, please note that new proposals are reduced by an increase in the proposed agency vacancy savings level from 4 percent included in present law to 7 percent, which is a negative adjustment.

- Maintenance of most economic development programs begun in the 2009 biennium as one-time-only appropriations
- An increase in vacancy savings (negative adjustment)
- A 3 percent increase in special education
- Environmental remediation

Type of Funding

Ongoing expenditure proposals are also shown by type of funding. The largest source of funding for state government is federal funds, although the largest growth occurs in general fund, which increases by $190.4 million or 6.0 percent for ongoing funding from the 2009 biennium.

Figure 8

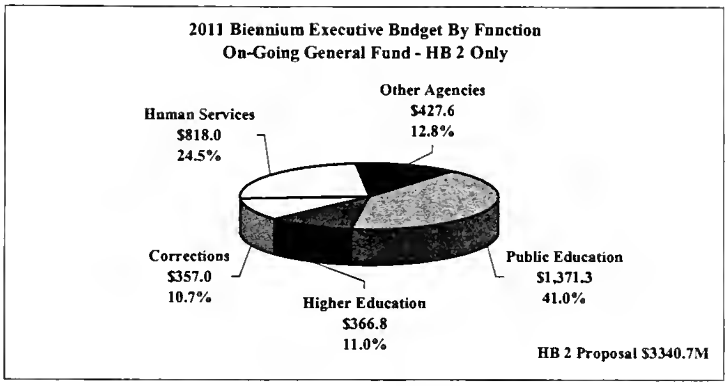


Executive Proposed General Fund Spending

Background

General fund comprises 41.0 percent of total proposed ongoing HB 2 funding ($3,340.8 million), and is used for a wide variety of programs, although education, human services, and corrections dominate expenditures, as shown in the following figure.

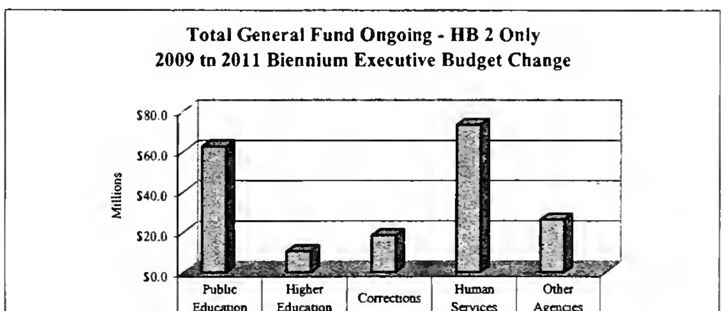
Figure 9



Proposed Spending

General fund would increase by $190.4 million, or 6.0 percent from the 2009 to the 2011 biennium for ongoing expenditures.

Figure 10



	Public Education	Higher Education	Corrections	Human Services	Other Agencies
Change	$62.5	$10.4	$18.3	$73.2	$26.0
% Change	4.78%	2.92%	5.40%	9.83%	6.47%

Significant increases and other policy proposals of the executive include:

- A 3.0 percent increase in BASE aid schedules and special education for K-12
- Medicaid caseload and utilization increases partially offset by a lower than anticipated growth rate in FY 2009, and replacement of federal funds due to a reduction in the Medicaid match rate paid by the federal government
- Correctional population increases of around 4.6 percent per year over the FY 2008 level, partially offset by a lower than anticipated population growth in FY 2009
- Statewide present law adjustments for fully funding personal services (offset by a vacancy savings rate), fixed costs, and inflation. This adjustment is the most and in many instances the only significant general fund adjustment for almost half of the agencies that receive general fund

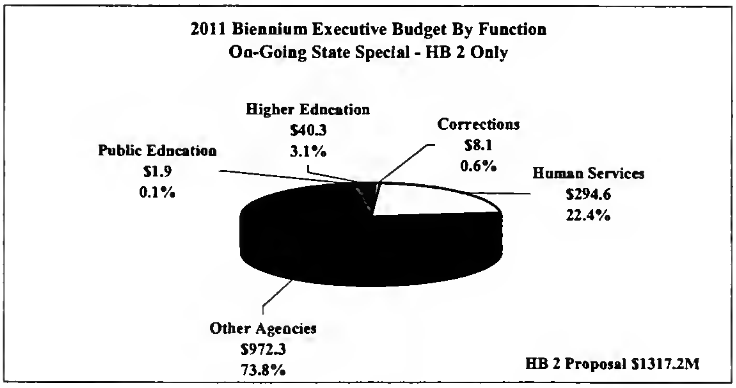
For additional detail, see page B-12 in appendix B.

Executive Proposed State Special Revenue Spending

Background

State special revenue is earmarked for specific purposes and comprises 16.2 percent of the total executive proposed budget for ongoing expenditures in the 2011 biennium. The following shows funds by function. "Other agencies" include transportation, environmental, and wildlife functions, each of which is significantly funded with state special revenue.

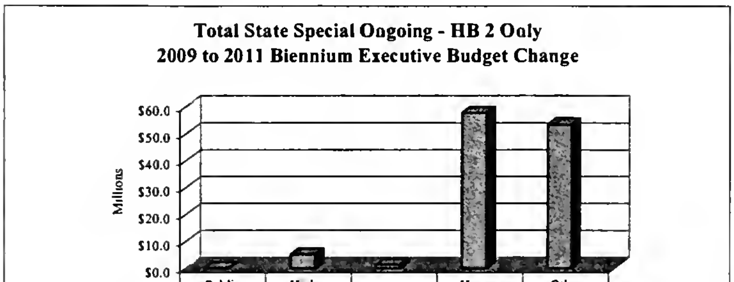
Figure 11



Proposed Spending

State special revenue funds would increase by $117.5 million, or 9.8 percent for ongoing expenditures from the 2009 to the 2011 biennium.

Figure 12



	Public Education	Higher Education	Corrections	Human Services	Other Agencies
Change	$0.0	$5.1	$1.3	$57.7	$53.4
% Change	0.00%	14.49%	19.12%	24.36%	5.81%

Significant increases and other policy proposals of the executive include:

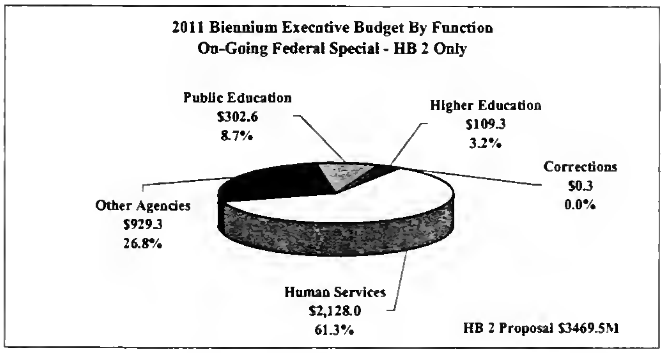
- Implementation of the Healthy Montana Kids initiative (I-155)
- Superfund and other environmental remediation/permitting activities
- General operational increases for various wildlife and environmental programs
- For additional detail, see page B-14 in appendix B.

Executive Proposed Federal Funds Spending

Background

Federal funds are, as the name implies, received from various federal funding sources. The federal government provides targeted funding that cannot be used except for the general and/or specific purposes intended. The proposed executive budget has a total of $3,469.5 million in the 2011 biennium, or 42.5 percent of the ongoing HB 2 total. Two agencies, Health and Human Services (DPHHS) and Transportation, account for almost 80 percent of the total funding.

Figure 13

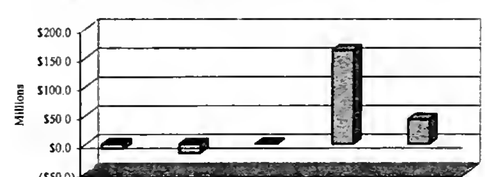


Proposed Spending

Federal funds for ongoing expenditures would increase by $181.8 million, or 5.5 percent from between the 2009 and the 2011 biennium. DPHHS would receive almost 90 percent of this increase, primarily for maintenance of current programs.

Figure 14

Total Federal Special Ongoing - HB 2 Only
2009 to 2011 Biennium Executive Budget Change



	Public Education	Higher Education	Corrections	Human Services	Other Agencies
Change	($7.9)	($15.1)	($0.1)	$162.5	$42.3
% Change	-2.54%	-12.14%	-25.00%	8.27%	4.77%

Significant increases and other policy proposals of the executive include:

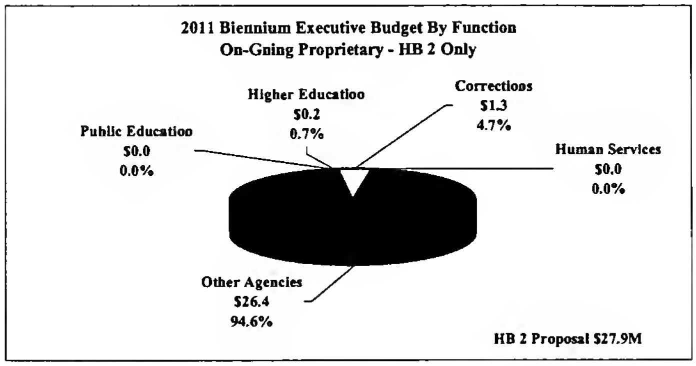
- Medicaid caseload and utilization increases partially offset by a lower than anticipated growth rate in FY 2009
- Increased federal transportation funding
- Homeland security grants that had been added via budget amendment in previous interims

For additional detail, see page B-16 in appendix B.

Executive Proposed Proprietary Funds Spending

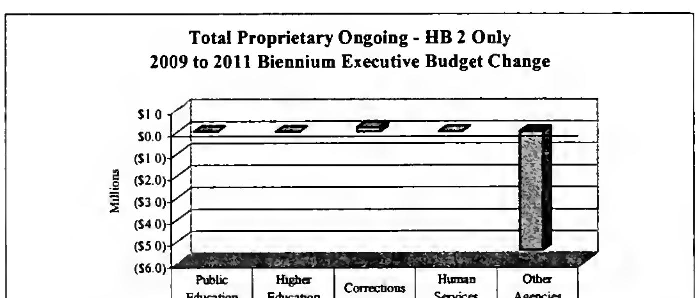
Most expenditures of proprietary funds are made in the Department of Administration, Revenue, and Justice.

Figure 15



Proprietary funds would be reduced by $5.2 million, or 15.6 percent from the 2009 to the 2011 biennium, primarily because certain functions that had been funded with proprietary funds in the Department Labor and Industry are proposed for appropriation in HB 2.

Figure 16



	Public Education	Higher Education	Corrections	Human Services	Other Agencies
Change	$0.0	$0.0	$0.2	$0.0	($5.4)
% Change	0.00%	0.00%	18.18%	0.00%	-16.98%

Please note that these totals are only the portion of proprietary funds appropriated in HB 2, which is only a small fraction of the total. The remaining proprietary funds do not require an appropriation in HB 2. Rather, the legislature establishes the maximum rates the proprietary-funded programs may charge those who utilize the services. If only non-budgeted proprietary funds are included, the increase would total $161.5 million or 11.8 percent. Major increases (with the exception of the State Fund, which is a quasi-independent entity that would increase by $39.3 million) proposed by the executive include various functions, particularly information technology, in the Department of Administration and increases for unemployment insurance.

Volumes 3 through 7 of the LFD 2011 Biennium Budget Analysis contain discussion of all non-budgeted proprietary funds in the relevant agencies.

EXECUTIVE PROPOSED LONG-RANGE PLANNING SPENDING

Background

The Long-Range Planning (LRP) subcommittee analyzes and makes appropriations and grant authorizations for the executive proposal of capital projects. The capital project budgets include investment in various forms of infrastructure including: the acquisition of lands, construction and major maintenance of lands and buildings, maintenance and development of water related infrastructure, reclamation activities, and information technology.

Governor's Proposal

The executive budget proposes total funds spending of $284.3 million for the LRP budgets. In the 2011 biennium, the legislature will be appropriating funds for nine programs. The LRP programs include:

- Long-Range Building Program – acquisition, construction, and major maintenance of state owned lands and buildings
- State Building Energy Conservation Program – energy efficiency improvements to state owned buildings
- Long-Range Information Technology Program – major information technology build out and upgrade
- Treasure State Endowment Program – water infrastructure grants to local governments
- Treasure State Endowment Regional Water Program – matching funds for major regional water projects
- Renewable Resource Grant and Loan Program – water conservation grants and loans to local governments
- Reclamation and Development Grant Program – grants for the reclamation of lands degraded by severance activities
- Cultural and Aesthetic Grant Program – arts and historical grants
- Quality School Facility Program – a newly proposed grant program authorizing grants for major maintenance of K-12 school facilities

Figure 17 provides a summary of the proposed appropriations for the LRP programs included in the executive budget. The appropriations shown have been adjusted to agree with the executive budget revisions of December 15, 2008.

Figure 17

Long-Range Planning Budgets 2011 Biennium

(Dollars in Millions)

Program	General Fund[1]	State Special[2]	Federal Special	Capital Project	Authority Only	Total
	Appropriations					
Long-Range Building Program	$5.2	$50.7	$9.4	$17.4	$15.1	$97.8
FWP-Access Montana	2.0					2.0
State Building Energy Conservation Program	13.4					13.4
Consolidated IT Long-Range Building Program	12.9	21.4	66.0			100.3
Treasure State Endowment Program - Grants		17.1				17.1
Treasure State Endowment Regional Water Projects[3]		8.0				8.0
Renewable Resource Grants		8.5				8.5
Renewable Resource Loans[4]		9.6				9.6
Reclamation & Development Grants		5.8				5.8
Cultural & Aesthetic Grant Program		0.8				0.8
Quality School Facility Program[5]		21.0				21.0
Total Long-Range Planning Recommendations	$33.5	$142.9	$75.4	$17.4	$15.1	$284.3

[1] Includes $6 million of general fund appropriations in the LRITP and $27.5 million of general fund OTO transfers then appropriated from capital project funds
[2] Includes appropriation of bond proceeds: $15 million in Long-Range IT, $9.3 million in Renewable Resource Loans, $21 million Quality School Facility
[3] Appropriation omitted from the initial executive budget recommendation
[4] Initial executive recommendation only included bond authority of $2.9 million
[5] New program proposal - appropriation related to land-acquisition

Issues for Legislative Consideration

The Governor's 20 x 10 Initiative

The executive proposal recommends spending of approximately $26.5 million in the Long-Range Building Program (LRBP) and the State Building Energy Conservation Program (SBECP) for energy efficiency projects in the 2011 biennium budget. The LRBP and SBECP appropriations are the most significant component of the Governor's 20 x 10 Initiative. The "20 x 10 Initiative" calls on executive branch agencies to increase energy efficiencies by 20 percent by 2010. The Governor's initiative would measure the gains in energy efficiencies in reductions in British Thermal Units (BTU's) consumed. However, a 20 percent reduction in BTU's does not necessarily equate to a 20 percent reduction in costs.

In FY 2008, total energy costs for state, as recorded in the state accounting system (including electricity, natural gas, fuel oil, propane, and coal), were $39.2 million. State energy costs increased by 39.2 percent over the total energy costs of FY 2007. Energy inflation and the addition of new state space make the calculation of energy savings based on expenditures complex. SBECP projects, as recommended in the executive budget with savings measured at $1.2 million annually, will only reduce the state government consumption of energy by 4.3 percent (calculated against the FY 2008 energy costs), far from the 20 percent goal of the initiative. While "efficiencies" are expected to be gained from sources other than capital improvements, such as changes in employee behaviors and agency modifications (temperature and lighting changes), the capital improvements component is expected to have the greatest effect, and a dollar savings of 4.3 percent appears inadequate. No information was provided to the legislature on the reduction of BTU's resulting from the projects.

Because of the magnitude of the spending on the 20 x 10 Initiative, the legislature may wish to develop a reporting method to ensure that the energy projects recommended in the executive budget are providing the savings in both BTU's and costs which are expected. Without tracking the savings of the program, the legislature will not know if the $56.5 million investment has created energy efficiencies or that the initiative has accomplished the goal of becoming 20 percent more energy efficient by 2010.

Quality School Facilities Program

The executive budget includes a proposal for a new program, the Quality School Facilities Grants Program (QSFP), which is intended to help the K-12 school districts to address facility deficiencies and improve technological access. Upgrades at K-12 facilities will be in part based on the recommendations provided in the K-12 facility condition and needs assessment and energy audit, a study required in HB 1 of the December 2005 Legislative Special Session.

The executive budget did not include a plan for QSFP grant issuance in the 2011 biennium. Consequently, the legislature has no information to determine how much of K-12 facility needs would be addressed with the available and proposed funding in the 2011 biennium. However, the executive budget did include a proposal for the purchase of income-generating real property for the QSFP, although it did not contain any information related to the purchase of land for the purpose of providing funds for the QSFP. Without this information, there is no way to determine what the future revenue stream of the acquisitions might be.

STATUTORY APPROPRIATIONS

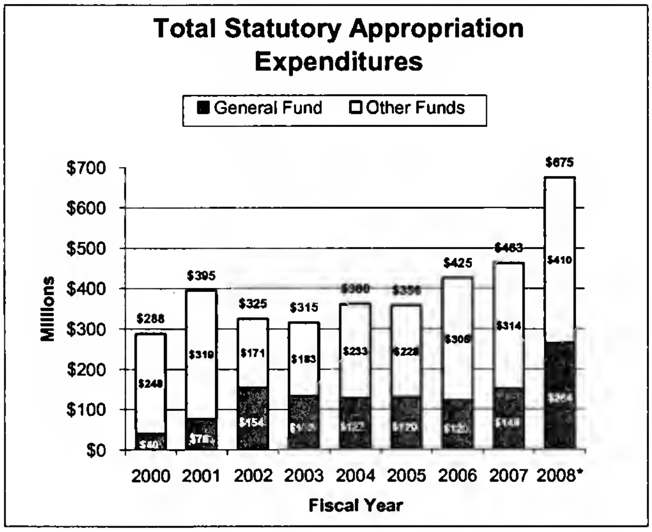
General Fund

Statutory appropriations are a special kind of legislative appropriation. Unlike temporary appropriations that expire in two years (such as those in the general appropriations act), statutory appropriations are, as their name suggests, in statute and are not part of the biennial budgeting process. As such, they are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. The legislature has made various attempts to not lose sight of these appropriations. In 1985, Representative Bardanouve sponsored legislation that required all valid statutory appropriations to be contained in a list in 17-7-502, MCA. That list provides statutory citations for each statutory appropriation. Although there are currently 94 sections listed containing 99 separate statutory appropriations. Each appropriation listed in statute could have multiple appropriations established on the state accounting system. Of the 99, 28 statutorily appropriate general fund. In 1993, Senator Grosfield successfully sponsored legislation (SB 378) that required a review of all statutory appropriations every two years by the Legislative Finance Committee (this requirement was removed by the 2001 legislature). After coming off of some tough budget sessions ($156.1 million of general fund budget balancers were enacted in the three special sessions in 1992 and 1993), Senator Grosfield and other legislators were frustrated with

the difficulty in reducing statutory appropriations. They were also concerned with the unfairness this caused when HB2 appropriations had to absorb a larger portion of the reductions.

Statutory appropriations are intended for only limited situations, and guidelines for the appropriateness for establishing them are specified in 17-1-508, MCA. In FY 2008, a total of $675.0 million was spent with statutory appropriations (Figure 18). The general fund expenditures were $264.3 million. Total expenditures since FY 2000 were $3.6 billion, of which $1.2 billion was general fund. There are approximately 131 FTE funded with statutory appropriations with 56 FTE in the Department of Justice and 53 FTE in the Department of Commerce.

Figure 18

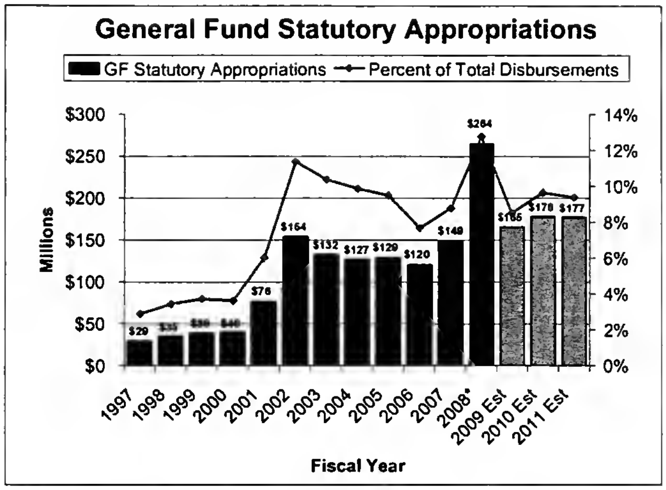


*Includes $1.6 M spent by MUS for optional retirement (HB 95) without a statutory appropriation

The significance of statutory appropriations lies not in the number of them, but rather in the amount of money authorized to be spent and whether the authorizations still reflect the priorities of the current legislature. All statutory appropriations are available for the legislature to review, prioritize, and change if desired. Figure 19 illustrates the amount of general fund spent through statutory appropriations from FY 1997 through FY 2008 and estimated amounts for FY 2009 to FY 2011. From FY 1997 to FY 2008, general fund expenditures from statutory appropriations increased $235.5 million and, in FY 2008, comprised 12.8 percent of all general fund expenditures. FY 2008 was an unusual year in that $94.6 million was spent to provide one-time tax rebates (HB 9 in the 2007 May special session). For the 2011 biennium, $354.9 million general fund is expected to be spent with statutory appropriations, a decrease of $73.0 million over the estimated $427.9 million to be spent in the 2009 biennium. The initiation of the local government entitlement program in FY 2002 (enacted by HB 124 in the 2001 session) accounts for most of the large increase shown in FY 2002. The

increase in FY 2001 is largely due to payment of wildfire costs incurred during the summer of 2000.

Figure 19



*Includes $1.6 M spent by MUS for optional retirement (HB 95) without a statutory appropriation

Figure 20 shows each individual general fund statutory appropriation that has been included in the general fund balance sheet for FY 2009-2011. The largest single statutory appropriation of general fund occurs under 15-1-121, MCA. Under this statute, $195.6 million is expected to be spent for entitlement payments to local governments and tax increment financing districts in the 2011 biennium. Since statute allows annual increases based on averages of Montana's gross state product and personal income, the amount has grown at an average annual rate of 2.8 percent since 2003. Other large statutory appropriations of general fund in the 2011 biennium include:

- $95.8 million of transfers to retirement funds (Title 19, MCA)
- $31.9 million to service the debt on bonding issues approved by past legislatures (17-7-502, MCA)
- $16.5 million for emergencies or disasters declared by the governor or the president of the United States
- $6.1 million of coal trust interest (that is deposited to the general fund) to fund economic development programs (15-35-108, MCA). The statutory appropriations sunset after FY 2010.

Figure 20

General Fund Statutory Appropriation Estimates
Fiscal Years 2009-2011
(Millions)

MCA Cite	Bill/Purpose	Legislative Session	Fiscal 2009	2011 Biennium Fiscal 2010	Fiscal 2011	Total
Retirement						
19-3-319	Local Government PERD 19-3-319	1985	$0.732	$0.820	$0.919	$1.739
19-6-404(2)	HB 102-MVD retirement transfer	2005	0.294	0.300	0.305	0.604
19-6-410	HB 102-MHP retirement transfer	2005	1.219	1.344	1.481	2.825
19-9-702	Ins Prem Tax-Fire/Polic Ret 19-9-702-SA	1997	10.096	10.785	11.419	22.204
19-13-604	Prem Tax-Fire/Pol 19-13-604-SA	1997	10.518	11.561	12.377	23.939
19-17-301	Prem Tax-Fire/Pol 19-17-301-SA	1985	1.660	1.764	1.874	3.637
19-18-512(1)	Prem Tax-Fire/Pol 19-18-512-SA	1985	0.360	0.376	0.393	0.769
19-19-305(1)	Prem Tax-Fire/Pol 19-19-305-SA	1985	0.291	0.304	0.317	0.621
19-19-506(4)	Prem Tax-Fire/Pol 19-19-506-SA	1985	0.024	0.025	0.026	0.050
19-20-604	Teachers GABA 19-20-604	1985	0.798	0.838	0.880	1.718
19-20-607	HB 63 - Teachers' retirement system	2007	13.370	16.625	17.460	34.085
19-21-203	HB 95 - Increase MUS employers' retirement contributions	2007	1.684	1.751	1.822	3.573
Sub-total			$41.046	$46.492	$49.273	$95.764
Economic Development*						
15-35-108(7)(b)(i)	Coop Developmental Center NMC	2000 SS	$0.065	$0.065	$0.000	$0.065
15-35-108(7)(b)(ii)	Add Vision 2005-SA	2000 SS	1.250	1.250	0.000	1.250
15-35-108(7)(b)(iii)	Research & Commercialization	2000 SS	3.650	3.650	0.000	3.650
15-35-108(7)(b)(iv)	Economic Development	2000 SS	1.100	1.100	0.000	1.100
Sub-total			$6.065	$6.065	$0.000	$6.065
Other						
7-4-2502	HB 12 - Pay county attorney salaries	2007	$2.409	$2.565	$2.573	$5.138
10-1-1202	HB 136 - Death benefit to national guard beneficiaries	2007	0.000	0.000	0.000	0.000
10-3-312(1)	Emergency Appropriations	1985	4.811	8.250	8.250	16.500
15-1-121(3)	HB 124 - Combined Local Entitlement Distribution	2001	90.607	94.777	99.209	193.986
15-1-121(6)	HB 124 - Local TIF Entitlement Distribution	2001	1.288	0.819	0.785	1.604
15-1-218	HB 680 - DOR to collect out-of-state debt	2007	0.100	0.200	0.400	0.600
15-70-601(1)(b)	HB 756 - Biodiesel tax incentives	2005	0.000	0.000	0.000	0.000
15-70-369(4)	HB 776 - Biodiesel tax refunds	2005	0.000	0.000	0.000	0.000
16-11-509	HB 169 - Fines & cost recovery tobacco settlement	2005	0.027	0.027	0.027	0.054
17-3-106(2)	DofA Cash Management Interest	1993	0.174	0.174	0.174	0.348
17-6-101(6)	BOI Banking Charges	1993	1.500	1.500	1.500	3.000
17-7-502(4)	TRANS Debt Service and Issuance Costs	1985	0.000	0.000	0.000	0.000
17-7-502(4)	Transfer to Debt Service A/B Bond	1985	17.239	17.096	14.757	31.853
Sub-total			$118.156	$125.408	$127.675	$253.083
Total			$165.266	$177.965	$176.948	$354.912

* The statutory appropriations sunset after FY2010

LFD COMMENT

Executive Budget – LC 457 and HB 14

The executive proposes two new proposals funded with general fund statutory appropriations.

Economic Development (LC 457) – Under current law, the general fund statutory appropriations in 15-35-108(9), MCA, terminate at the end of FY 2010. The executive proposes legislation to extend the termination date an extra nine years, to the end of FY 2019, and reduce the amounts for growth through agricultural programs and research and commercialization. If approved, an additional $3.1 million of general fund would be appropriated each year for: 1) $1.3 million – transfer to the research and commercialization (which is statutorily appropriated); 2) $625,000 – growth through agricultural program; 3) $425,000 – certified regional development corporations; 4) $300,000 – export trade enhancement; 5) $200,000 – Montana manufacturing extension center at MSU-Bozeman; 6) $125,000 – small business development center; 7) $65,000 – cooperative development center; and 8) $50,000 – small business innovative research program.

Originally enacted in the May 2000 special session (to fund the programs that were not funded because of the invalidity of the coal producer's license tax), HB 1 appropriated $3.4 million general fund in the 2001 biennium for various economic development programs. It also appropriated $3.4 million general fund in each of the 2003 and 2005 biennia for the same programs and required the transfer of $19.4 million general fund to the commercialization expendable trust fund over the 2003 and 2005 biennia. Numerous changes to the appropriations, transfers, and programs to be funded have been made since HB 1, including extensions of the termination dates.

Additional Debt Service (HB 14) - The executive proposes to issue $21.0 million in general obligation bonds to purchase and manage real property and appurtenances for forest, recreation, and income-producing activities. It is estimated that the debt service, paid with a statutory appropriation from the general fund, will be $0.4 million in FY 2010 and $0.9 million in FY 2011. Total debt service through FY 2031 will be $33.4 million general fund. An issue raised by this proposal is highlighted below.

LFD ISSUE

HB 14 – Bonding for School Trust Land

Although the intent of the legislation appears to be the purchase of common school trust lands, this intent is not clear. The legislation should clearly state that any land purchased with the $21 million will be common school trust lands and subject to the same constitutional protections as other common school trust lands.

The $21 million in bond proceeds can be used to purchase land and to pay DNRC administrative costs for managing the land. No provision is provided for paying administration costs when all the proceeds have been expended.

The requirement in Section 1 that net interest and income (after deductions for DNRC administration expenses) from the purchased land be earmarked to the school facility improvement account also applies to "appurtenances purchased". A common definition of "appurtenances" is the rights attached to a piece of land. Examples of such rights are mineral rights and easements. Currently, revenue from the sale of common school trust easements and royalties from the sale of minerals (once SB 495 [2001 session] ends) is considered permanent revenue (part of the trust corpus) and is returned to the trust. Under this legislation, it appears that this permanent revenue might be distributed, possibly in violation of Article X, Section 3 of the Montana Constitution which states: "Public school fund inviolate. The public school fund shall forever remain inviolate, guaranteed by the state against loss or diversion."

The requirement in Section 1 that net interest and income (after deductions for DNRC administration expenses) from the purchased land be earmarked to the school facility improvement account complicates the revenue estimation process from this revenue source. Currently, revenues are estimated by individual source (such as timber, mineral royalties, streambed leases, grazing, trust funds bond pool earnings, etc.) from <u>all</u> school trust lands. To obtain accurate estimates under this legislation, interest and income revenue from the <u>specific</u> tracts of school trust lands purchased with the $21 million would have to be estimated separately.

LFD COMMENT

Executive Budget - HB 152

The proposed legislation would create a grant program for school facilities administered by the Department of Commerce. Money from certain timber, certain mineral royalties, and power site leases from common school trust land would be diverted to a new state special revenue account called the school facility and technology account from which the grants would be appropriated.

The legislation removes the state special revenue statutory appropriation for the revenue from timber sales over the value of 18 million board feet (estimated to be $2.0 million in FY 2009, $2.7 million in FY 2010, and $0.8 million in FY 2011). It creates a new $1.0 million yearly state special revenue statutory appropriation from the school facility and technology account for school technology purposes. The applicable sections are effective on passage and approval.

LFD COMMENT

Legislative Finance Committee Policy

During the interim, the Legislative Finance Committee reviewed statutory appropriations and ultimately introduced legislation to eliminate, change, and consolidate selected statutory appropriations (LC0066). The committee also approved the following: "It is the policy of the Legislative Finance Committee that the legislature does not enact legislation establishing a statutory appropriation unless a termination date is included".

LFD ISSUE

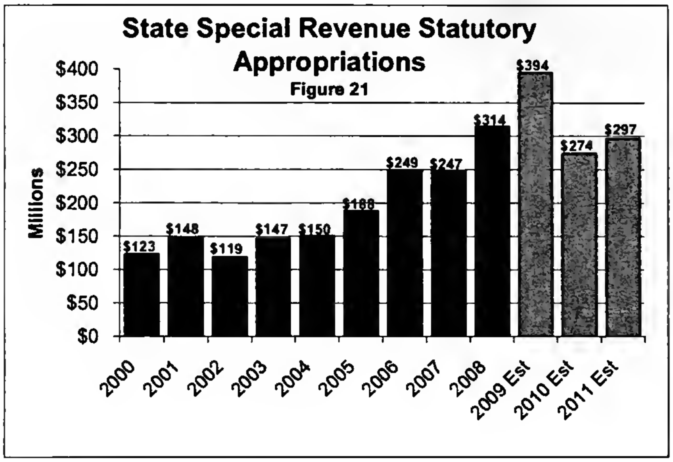
Local Government Entitlement Payments

As stated above, $195.6 million of general fund is projected to be spent in the 2011 biennium through a statutory appropriation for entitlement payments to local governments and tax increment financing districts. By statute, subsequent yearly amounts are automatically increased by a calculated growth factor. Since FY 2008, the yearly growth in expenditures has increased each year at an average rate of 4.4 percent. Because the money is appropriated in statute, it is not reviewed by the legislature as part of the biennial budgeting process. In essence, it and all other general fund statutory appropriations have priority funding over all general fund programs appropriated in the general appropriations act (HB 2). When the legislature is prioritizing general fund programs to balance the budget, programs funded with general fund statutory appropriations should be considered by the legislature along with all other general fund programs.

As an alternative to funding local governments and tax increment financing districts entitlement payments through a statutory appropriation, the legislature could eliminate the general fund statutory appropriation and provide general fund appropriations for the programs in HB 2 at the same level. Not only would this ensure that the programs would receive the same amount of funding, but the appropriations would be reviewed and prioritized along with the other general fund programs in HB 2 each biennium and the level of funding would reflect the current legislature's funding priorities.

State Special

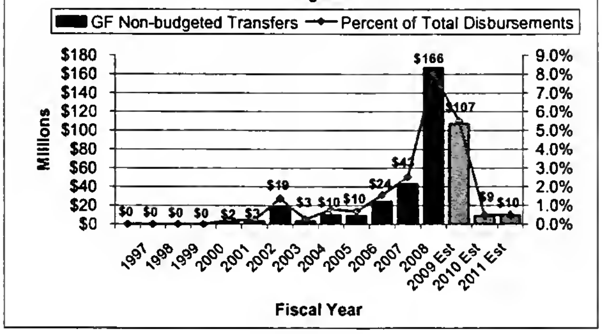
It is estimated by the executive that $570.4 million of state special revenue will be spent through statutory appropriations in the 2011 biennium. Figure 21 shows the amounts spent from FY 2000 through FY 2008 and the amounts estimated by the executive to be spent from FY 2009 through FY 2011. In FY 2008, the agency with the largest expenditures of state special revenue ($172.4 million) with statutory appropriations was the Department of Revenue. This department distributes revenue from oil, natural gas, metalliferous mines, beer, wine, and liquor taxes to local and tribal governments. The agency with the second largest expenditures ($54.7 million) is the Office of Public Instruction which distributes net interest and income from the common school trust to fund public schools. The five agencies with the largest expenditures spent $291.8 million or 92.9 percent of the $314.1.2 million total. By far, the largest single purpose for which the money was spent ($282.4 million or 89.9 percent) was to transfer money to local governments. The large increase in FY 2009 is due primarily to larger anticipated Department of Revenue distributions ($212.4 million) to local governments and anticipated expenditures ($40.0 million) from the fire suppression account authorized by the 2007 Legislature in the September 2007 special session.



GENERAL FUND NON-BUDGETED TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and, with proper legislative authorization, money may be transferred from one account to another without an appropriation. This results in less money in one account for the programs it funds and more in another. Like statutory appropriations, these transfers and their authorizations are in statute (or sometimes contained in uncodified legislation) and are not part of the biennial budgeting process, yet they affect the amount of money available for the legislature to appropriate for specific programs. Because they are in statute, they remain in place until removed or changed by legislation.

General Fund Non-budgeted Transfers
Figure 22



Since FY 2000, increased amounts of money have been transferred out of the general fund to other accounts that fund non-general fund programs. As illustrated in Figure 22, this amount has grown from $0 in FY 1999 to a high of $166.4 million in FY 2008. Of the $166.4 million, $158.0 million was uncodified one-time transfers for capital projects ($82.6 million), water adjudication ($25 million), noxious weed trust fund ($5.0 million), cultural trust fund ($1.5 million), national guard life insurance ($1.0 million), and children trust fund ($1.0 million) among others. An estimated $107.0 million is to be transferred in FY 2009 (5.5 percent of total general fund expenditures) including one-time transfers to other funds of $98.2 million for capital projects, community health center support, free hunting licenses, and national guard life insurance. Transfers are estimated to be $18.6 million in the 2011 biennium. Included for the first time is an anticipated transfer of $0.8 million to the workers compensation old fund in FY 2011 (39-71-235(6), MCA). Beginning FY 2012 at $8.0 million, the Montana State Fund estimates yearly general fund transfers, in decreasing amounts, will be needed until FY 2047. Total general fund transfers to the old fund are estimated to be $52.2 million.

These transfers reduce the amount of money in the general fund that is available for general fund programs and increase the amount available for other non-general fund programs. Figure 23 shows each non-budgeted general fund transfer that has been included in the general fund balance sheet.

Figure 23

General Fund Non-budgeted Transfer Estimates
Fiscal Years 2009-2011
(Millions)

Authorization	Name	Legislative Session	Fiscal 2009	2011 Biennium Fiscal 2010	Fiscal 2011	Total
Vehicle/Other Fee Transfers						
15-1-122(1)	DPHHS-Adoption services	2001	$0.054	$0.059	$0.065	$0.124
15-1-122(2)(c,d)	DOT-Nonrestricted account	2001	3.096	3.142	3.190	6.332
15-1-122(3)(a)	DEQ-Junk vehicles	2001	1.701	1.693	1.657	3.350
15-1-122(3)(b)	Agriculture-Noxious weeds	2001	1.724	1.716	1.680	3.395
15-1-122(3)(c)(i)	FWP-Boat facilities & enforcement, OHV, Parks	2001	0.529	0.526	0.515	1.041
15-1-122(3)(c)(ii)	FWP-Enforcement, snowmobiles	2001	0.115	0.114	0.112	0.226
15-1-122(3)(c)(iii)	FWP-Motorboats	2001	0.184	0.183	0.179	0.362
15-1-122(3)(d)	MA-Veterans' services	2001	0.735	0.732	0.717	1.449
15-1-122(3)(e)	DOT-Disabled seniors transportation	2001	0.345	0.343	0.336	0.679
15-1-122(3)(f)	MA-Search and rescue	2001	0.046	0.046	0.045	0.091
Sub-total			$8.527	$8.554	$8.495	$17.049
Other Transfers						
Unknown	DPHHS Nonbudgeted		$0.248	$0.248	$0.248	$0.496
17-1-511(2)	SB 553 - Incentives for rural physicians	2007	0.057	0.114	0.170	0.284
39-71-2352(6)	Old state fund shortfall	2002 SS	0.000	0.000	0.760	0.760
53-20-171(2)	Developmental disability tax credit excess	2003	Unknown	Unknown	Unknown	Unknown
77-1-108(4a)	HB 19 - To trust land administration account	2007	0.000	0.080	0.000	0.080
87-2-801(6)	SB 166 - To general license acct. purple heart free license	2007	0.001	0.001	0.001	0.001
87-2-803(12c)	SB 243 - To general license acct. national guard free license	2007	0.027	0.027	0.027	0.054
87-2-805(5)	SB 166 - To general license acct. senior & youth free license	2007	0.116	0.000	0.000	0.000
Un-codified	HB 4 - Transfers to capital project funds	2007 SS	97.323	0.000	0.000	0.000
Un-codified	HB 155 - National guard life insurance	2007	0.100	0.000	0.000	0.000
Un-codified	HB 406 - Community health center support	2007	0.650	0.000	0.000	0.000
Sub-total			$98.521	$0.469	$1.206	$1.676
Total			$107.049	$9.023	$9.701	$18.725

LFD COMMENT

Executive Budget General Fund Transfers – HB 10, HB 5, HB 135, (HB 161 (LC 276)

In HB 10, the executive proposes to transfer $6.9 million general fund to the information technology capital projects fund during the 2011 biennium. The transfers are contingent on the FY 2011 general fund balance exceeding $300 million, as projected by the Governor's Office. Since the projected balance is $295.5 million, the transfer is not included in the budget. The money would be appropriated from the account for: 1) efficiency through imaging; and 2) a new medical management information system for DPHHS. More information on these proposals can be found in Volume 7, Section F.

LFD COMMENT (CONT.)

HB 5 would transfer $22.1 million general fund to capital project and state special revenue accounts for: 1) long-range building projects - $5.1 million; 2) energy conservation projects - $13.4 million; 3) energy conservation - $1.5 million; and 4) FWP land acquisition – $2.0 million. The legislature also adds new sections to MCA Title 90, Chapter 4, Part 6. Section 15 of the bill would require the legislature in HB 2 to approve or disapprove the transfer of general fund or capital project funds in an amount equal to estimated energy cost savings to the energy conservation repayment account. It also states, "the current level utility appropriations ... must be reduced by the sum of the amounts approved to be transferred...". This section is effective on passage and approval.

HB 135 would transfer $1.0 million general fund in the 2011 biennium to the Peoples Creek minimum flow account to upgrade irrigation systems and for a reservoir on the Fort Belknap reservation. Money in the account cannot be disbursed until the compact has been ratified by the Montana legislature, US Congress, and the Tribe.

HB 161 (LC 276) would transfer $4.0 million general fund in the 2011 biennium to the Blackfeet Tribe water rights compact infrastructure account for infrastructure projects on the Blackfeet Indian reservation. Money in the account cannot be disbursed until the compact has been ratified by the Montana legislature, US Congress, and the Tribe.

LFD COMMENT

Legislative Finance Committee Policy

During the interim, the Legislative Finance Committee reviewed general fund transfers and approved the following: "It is the policy of the Legislative Finance Committee that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated. Such action obfuscates the true source of funding, reduces the general fund balance without any review by the appropriations subcommittees, and is inefficient. A better method is to directly appropriate the funding for the intended use. This policy also applies to non-general fund on-going transfers. Our Legislative Fiscal Division staff is instructed to inform legislators, legislative committees, and others as it deems necessary of this policy."

LFD ISSUE

MCA Title 15 General Fund Transfers

The largest group of on-going transfers out of the general fund ($17.0 million in the 2011 biennium) is the transfer of motor vehicle fee and other revenue that is initially deposited to the general fund (15-1-122, MCA). This money is earmarked and transferred out to multiple accounts to fund various state programs. The practice of transferring money out of the general fund escalated sharply with the enactment of HB 124 (entitlement payments to counties) in the 2001 session. The practice is not conducive to good budgeting and unnecessarily complicates the revenue and disbursement processes.

The legislature could eliminate this complicated and unnecessary practice and achieve the same results by implementing one of the following changes:

1. Earmark the applicable fees and provide for their direct deposit to the various program accounts. This bypasses the unnecessary step of first depositing the money in the general fund and then transferring the general fund to the various program accounts. Since the money is already being appropriated from these program accounts, current appropriations would not change.
2. Continue to deposit the applicable fees to the general fund, but eliminate the transfers to the various program accounts. Since there would be no transfer revenue to appropriate from the various program accounts, appropriations from these accounts could be eliminated and replaced by general fund appropriations in the same amounts.

In both cases, the various state programs would receive the same level of appropriation, the general fund transfers are eliminated, and there is no impact on the general fund balance.

MISCELLANEOUS APPROPRIATIONS AND TRANSFERS

Besides the general appropriations act (HB 2), there are typically a number of other bills the make up the total executive budget. Figure 24 list such bills that either appropriate funds or transfer funds. The amounts listed below for a few key bills differ from the amounts in those bills because the amounts used in the figure by necessity are made consistent with the executive budget general fund balance statement submitted December 15.

Figure 24

Appropriation and Transfer Bills
Executive Budget 2011 Biennium

	FY 2010			FY 2011		
Bill	**GF**	**Other Funds**	**Total**	**GF**	**Other Funds**	**Total**
Appropriations						
HB 1	$1,215,000	$0	$1,215,000	$7,515,000	$0	$7,515,000
HB 5	0	98,022,000	98,022,000	0	0	0
HB 6	0	8,535,798	8,535,798	0	0	0
HB 7	0	5,812,865	5,812,865	0	0	0
HB 8	0	9,635,920	9,635,920	0	0	0
HB 9	0	839,400	839,400	0	0	0
HB 10 [a]	5,500,000	94,251,745	99,751,745	0	0	0
HB 11	0	25,083,889	25,083,889	0	0	0
HB 13 [a]	8,780,316	6,875,799	15,656,115	9,819,907	7,199,664	17,019,571
HB 14	0	21,000,000	21,000,000	0	0	0
HB 152	0	13,000,000	13,000,000	0	1,000,000	1,000,000
HB 135	0	1,000,000	1,000,000	0	0	0
HB 161	0	4,000,000	4,000,000	0	0	0
HB 154	0	30,000,000	30,000,000	0	0	0
Total	$15,495,316	$318,057,416	$333,552,732	$17,334,907	$8,199,664	$25,534,571
Transfers						
HB 5 [b]	$14,700,000	$0	$14,700,000	$7,260,000	$0	$7,260,000
HB 10 [c]	0	0	0	0	0	0
HB 135 [d]	1,000,000	0	0	0	0	0
HB 161 [e]	4,000,000	0	0	0	0	0
SB71 [f]	0	9,000,000	9,000,000	0	0	0
Total	$19,700,000	$9,000,000	$23,700,000	$7,260,000	$0	$7,260,000

[a] HB 10 and 13 amounts on this spreadsheet differ from the the bill
[b] Appropriated in HB 5 contingent on projected ending fund balance of $125 million...amounts differ from bill
[c] Transfer of $3.4 million GF each year in HB 10 contingent on projected ending fund balance of $300 million (unmet)
[d] Appropriated in HB 135 (LC275)
[e] Appropriated in HB 161 (LC276)
[f] Appropriated in HB 2

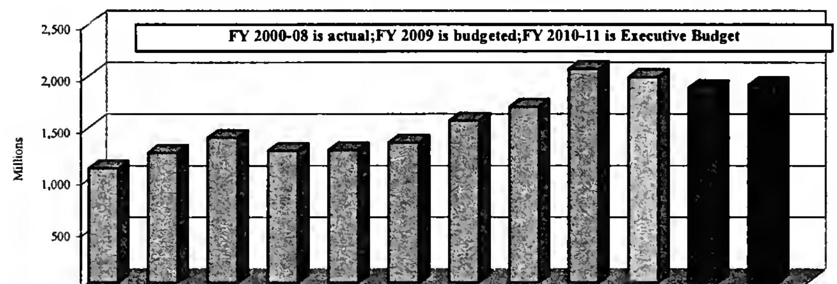
A HISTORICAL PERSPECTIVE ON GENERAL FUND SPENDING

TOTAL GENERAL FUND SPENDING – A 12-YEAR HISTORY

Figure 25 shows total general fund spending over the twelve year period FY 2000 through 2011. The amounts shown for the period FY 2000 through 2008 are actual disbursements, FY 2009 is as budgeted by the 60th Legislature, and FY 2010 and 2011 are as proposed in the revised executive budget submitted on December 15, 2008.[2]

Figure 25

Total General Fund Spending - FY 2000 thru FY 2011



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Nominal $'s	1,105.5	1,255.9	1,402.3	1,275.8	1,282.1	1,353.9	1,566.6	1,700.7	2,069.0	1,988.4	1,884.9	1,911.1
% Change		13.60%	11.66%	-9.02%	0.49%	5.60%	15.71%	8.56%	21.66%	-3.90%	-5.21%	1.39%

Total general fund spending grows from $1.106 billion to $1.911 billion over the period FY 2000 through 2011. This is a 72.9 percent total growth or an annual average growth rate of approximately 5.1 percent per year. As shown in Figure 25, general fund spending was on the increase from FY 2000 to 2002 reflecting the positive effects of the "dot com" rage and the resulting run-up in the securities market. Higher equity prices produced record capital gains income, high corporate profits, and accelerated state tax revenues. During FY 2003 and 2004, Montana's economy as well as the US economy fell into a recession precipitated by the tragic event of "9/11". Starting in FY 2005, state disbursements began an upward growth pattern fueled by unusually high revenue growth until FY 2008. Individual, corporation, and oil and gas taxes all contributed to this phenomenal growth spurt during this period. As shown in Figure 25 the executive budget proposes to adjust general fund spending well below the FY 2008 to 2009 amounts.

It should be noted that historical spending trends can be misleading if there are statutory changes that have occurred over the comparison period. For instance, the

[2]The disbursement data for this historical perspective was obtained from the Statewide Budgeting and Human Resources System (SABHRS) and the Montana Budgeting and Accounting System (MBARS). The economic information was obtained from IHS Global Insight, the regional and national economic forecasting service on contract with Montana state government.

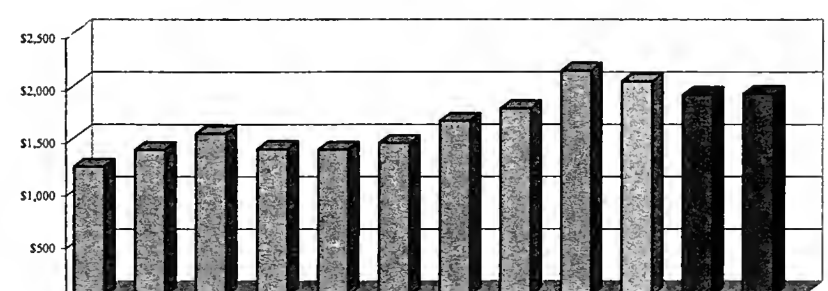
2001 Legislature passed HB 124 ("The Big Bill") that re-directed the flow of local government vehicle fees and taxes, video gambling revenues, and other taxes to the state general fund. This legislation had no impact on individual taxpayers but state disbursements went up by the corresponding increase in state revenue flow. Without knowledge of this change, the reader could conclude that state disbursements increased significantly when in reality some of this growth is due to "accounting" changes. The data presented in this historical perspective has not been adjusted for any legislative or accounting changes.

PER CAPITA GENERAL FUND SPENDING

Part of the increase in general fund spending can be attributable to a growing population and the services required for a greater population base. For instance, as population grows or the demographics of the populace change, the services provided by government may increase in one area and decrease in another. If the number of school age children decline, for example, while the population as a whole ages, reduced costs may be incurred for education but human services costs for the aged may increase. Population growth and the underlying demographics play a critical role in state general fund spending. Figure 26 shows per capita general fund spending over the twelve year period, FY 2000 through 2011. Per capita general fund spending has increased by 56.8 percent or an average annual rate of 4.2 percent per year.

Figure 26

Per Capita General Fund Spending - FY 2000 thru FY 2011



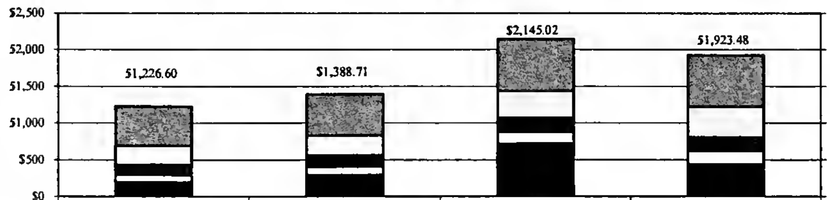
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Per Capita	$1,226.60	$1,387.48	$1,543.14	$1,394.71	$1,388.71	$1,452.23	$1,662.05	$1,783.34	$2,145.02	$2,039.67	$1,914.77	$1,923.48
% Change		13.12%	11.22%	-9.62%	-0.43%	4.57%	14.45%	7.30%	20.28%	-4.91%	-6.12%	0.45%

As shown in Figure 26, per capita spending has followed a similar pattern as discussed previously. Per capita spending peaked in FY 2008 and 2009 when the legislature authorized an unprecedented amount of "one-time-only" spending for state infrastructure, information technology, retirement system cash infusions, and tax rebates. The executive budget proposes to reduce per capita spending but higher than the level observed prior to FY 2008 and 2009. Figure 26 shows the same per capita spending data except that the information is summarized by major functional service areas of state government. As shown in Figure 27, the increase in per capita general fund spending from FY 2004 to 2008 is well over 54 percent. This increase partially a reflection of the legislature's desire to address significant fiscal policy issues during the

2007 legislative session. Figure 27 also provides an indication of the spending priorities of the proposed executive budget. For FY 2011, the executive budget proposes to reduce per capita spending for public schools and essentially maintain per capita spending for higher education. The Governor's spending priorities, as shown in the figure, are for public health and correctional services. Even with a proposed reduction in total per capita spending to $1,923 in FY 2011, this represents a $535 increase from per capita spending of $1,389 in FY 2004.

Figure 27

Per Capita General Fund Spending By Governmental Function



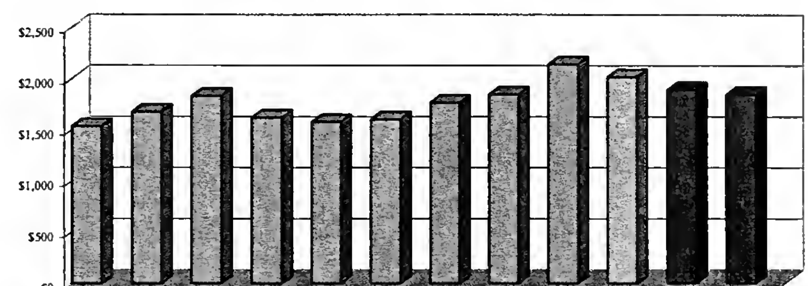
	2000	2004	2008	2011
Public Schools	$535.24	$556 89	$710.71	$698.87
Public Health	$259.21	$272.87	$369.95	$418.64
Higher Education	$138.75	$152.80	$184.30	$185.97
Corrections	$100.76	$113.51	$163.23	$183.15
Remaining	$192 65	$292.65	$716.83	$436.86
Total	$1,226.60	$1,388.71	$2,145.02	$1,923 48

INFLATION-ADJUSTED PER CAPITA GENERAL FUND SPENDING

Part of the general fund spending growth discussed above is related to the effects of rising prices (inflation) and a growing population over time. Figure 28 shows total general fund spending after adjusting for both of these factors. The data shown in the figure is per capita general fund spending adjusted for the effects of inflation. To put the data in perspective, real spending (inflation adjusted), before a population adjustment has grown by 32.8 percent from FY 2000–2011 or at an average annual rate of 2.6 percent. Total state general fund spending (unadjusted for inflation) as discussed before, grew by an annual average of 5.1 percent. Obviously, inflationary pressures contribute to the growth in general fund spending.

Figure 28

Inflation Adjusted Per Capita General Fund Spending - FY 2000 thru FY 2011



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real Per Capita	1,533.81	1,677.71	1,833.46	1,621.43	1,579.67	1,603.83	1,768.21	1,849.48	2,145.02	2,019.44	1,894.27	1,847.64
% Change		9.38%	9.28%	-11.56%	-2.58%	1.53%	10.25%	4.60%	15.98%	-5.85%	-6.20%	-2.46%

Real per capita general fund spending is way of determining the "true" growth in general fund spending. This method removes the effects of both inflation and population growth. As shown in Figure 28, per capita spending has increased from $1,534 in FY 2000 to $1,848 in FY 2011. This represents a $314 real per capita increase or 20.5 percent increase over this twelve year period. On an average annual rate, this is a 1.7 percent rate of growth for each year. In other words, when the effects of inflation and population changes are removed from the general spending amounts, actual growth in general fund spending has averaged 1.7 percent per year. This means that general fund spending is increasing because of other factors other than population changes and inflationary pressures. Examples of these "other" factors would be new initiatives such as additional public health services, full day kindergarten, correctional treatment programs, and appellate defender services.

State General Fund Spending Relative to the State's Economy

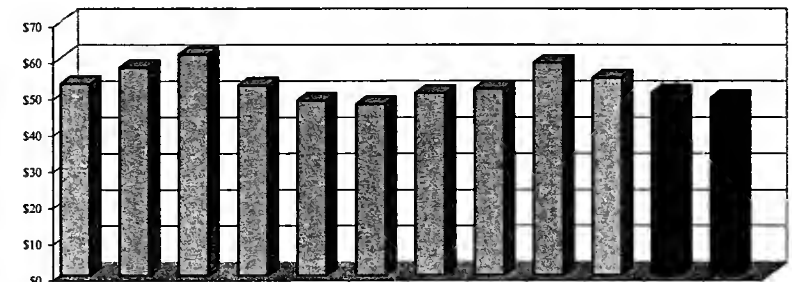
The above discussion explains the reasons for the growth in state general fund spending. This section discusses general fund spending relative to the state's ability to support that level of state spending. Figure 29 shows how general fund spending has varied over the twelve year period based on a percentage of Montana's gross state product (GSP). Gross state product is a broad measure of the size of Montana's economy. The data in Figure 29 shows the ratio in dollar terms of general fund spending to $1000 of Montana's GSP.

This figure portrays some interesting trends that were not apparent in the previous figures. For example, FY 2002 general fund spending in relation to GSP was the highest year during the twelve year period FY 2000 through 2011. During the early years of this decade, general fund spending was increased faster than Montana's GSP. Beginning in FY 2003, this trend was reversed when the legislature made numerous adjustments to the state general fund budget to maintain fiscal solvency. This trend remained stable until FY 2008, when the legislature approved numerous "one-time-only" spending requests as discussed previously. As shown in Figure 29, the executive

budget proposal would bring general fund spending in line with the historical pattern observed during FY 2003 through 2007. If this historical period represents the carrying capacity of Montana's economy to support a level of state government services, then the executive budget as proposed is not adding additional burden on the taxpayers of Montana. However, if an argument is made that spending during this historical period was too high, then governmental services would need to be reduced in the 2011 biennium budget to reach the desired fiscal policy goals. Since the executive budget includes a limited number of new proposals (compared to previous biennia), reductions to the 2011 biennium budget would likely require a reduction in present law services.

Figure 29

General Fund Spending Per $1000 Gross State Product - FY 2000 thru FY 2011



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Per $1000 GSP	$52.89	$57.42	$60 98	$52.39	$48.24	$47.34	$50.30	$51.57	$58.69	$54.59	$50.41	$48.97
% Change		8.56%	6.20%	-14.09%	-7.92%	-1.87%	6.25%	2.52%	13.81%	-6.99%	-7.66%	-2.86%

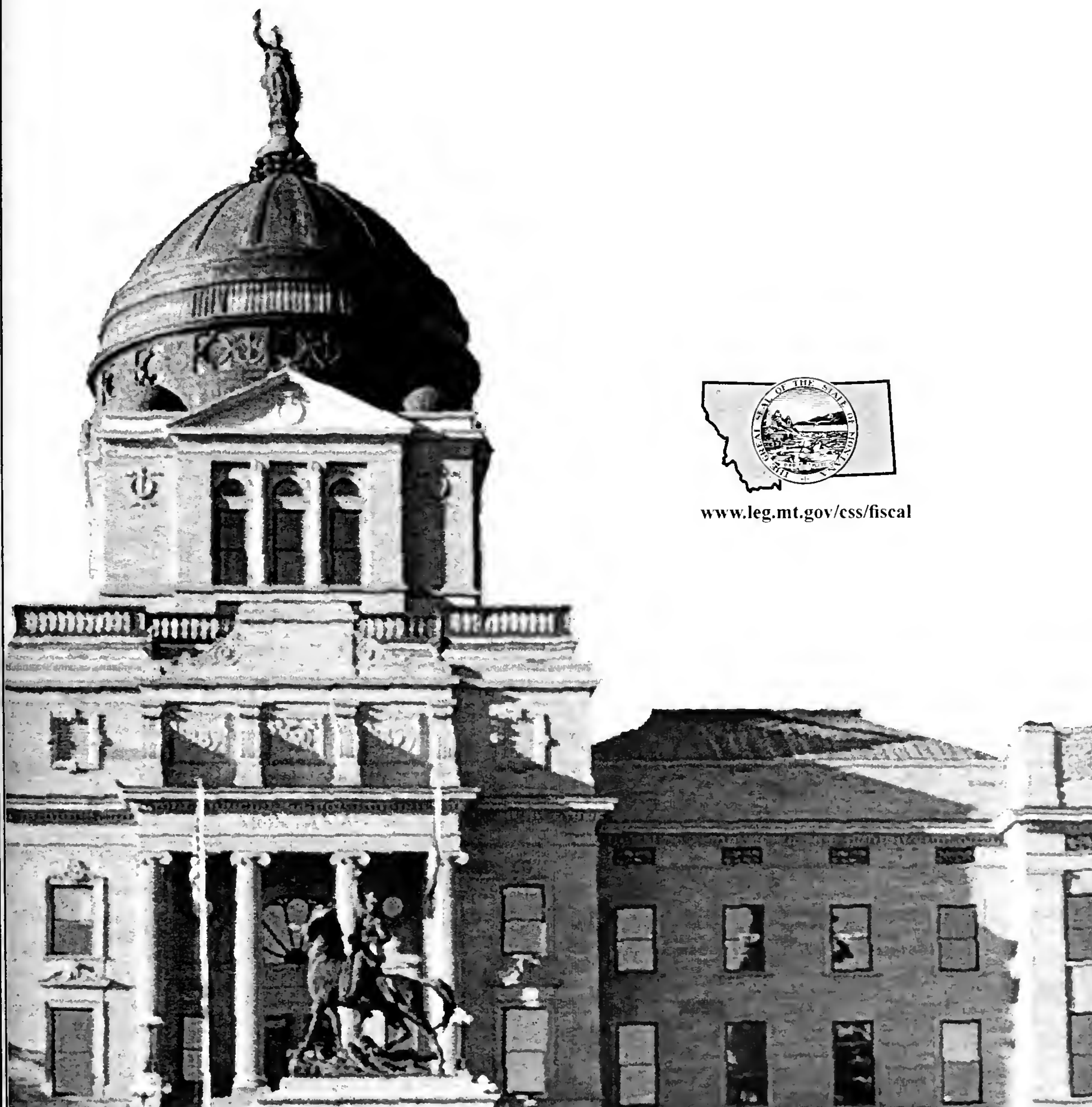
SUMMARY

In summary, total general fund spending over the ten year period (FY 2000-09) has increased on average by 6.7 percent per year. If the executive budget proposal for FY 2010 and 2011 is included, the average annual growth rate declines to 5.1 percent. This decline occurs because the executive budget proposes to reduce spending below the FY 2008 and 2009 periods. This rate compares to the growth in Montana's gross state product of 5.4 percent per year over the twelve year period.

Inflation adjusted per capita general fund spending increased 3.1 percent per year from FY 2000 to 2009, but declines to 1.7 percent per year when the executive budget proposal is included for FY 2010 and 2011. As mentioned previously, this means that general fund spending is increasing because of other factors other than population changes and inflationary pressures.

State Expenditures Perspectives
Major Expenditure Proposals

www.leg.mt.gov/css/fiscal



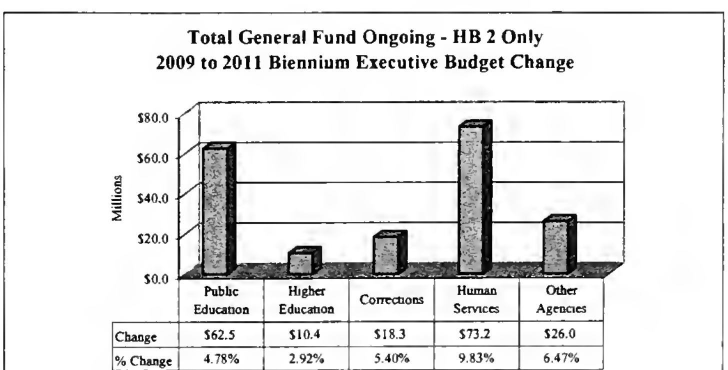
PART TWO – MAJOR EXPENDITURE PROPOSALS IN THE 2011 BIENNIUM BUDGET

GENERAL OVERVIEW

GOVERNOR'S PROPOSAL

Figures 1 and 2 show the allocation of the ongoing increases in HB 2, by function, for general fund and total funds.

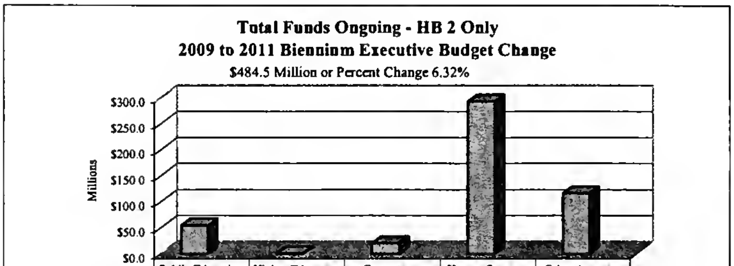
Figure 1



	Public Education	Higher Education	Corrections	Human Services	Other Agencies
Change	$62.5	$10.4	$18.3	$73.2	$26.0
% Change	4.78%	2.92%	5.40%	9.83%	6.47%

Total increases are shown in the following figure.

Figure 2



	Public Education	Higher Education	Corrections	Human Services	Other Agencies
Change	$54.7	$0.3	$19.8	$293.4	$116.3
% Change	3.37%	0.06%	5.71%	9.96%	5.19%

As stated earlier, the Governor proposes a present law budget, with very limited new proposals.

Increases are Dominated by Present Law Adjustments but the Ability of Agencies to Maintain Present Law Services is in Question

Background

The executive would add $190.4 million general fund and $484.5 million total funds in HB 2 for ongoing functions. Of this total $194.3 million general fund and $436.7 million total funds would be for ongoing present law, with a negative $3.9 million general fund and a positive $47.8 million total funds for ongoing new proposals ($7.8 million total general fund for all new proposals).

- Present law is defined in statute as "...that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:
  - changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;
  - changes in funding requirements resulting from constitutional or statutory schedules or formulas;
  - inflationary or deflationary adjustments; and
  - elimination of nonrecurring appropriations."
- Statewide present law adjustments (SWPLAs) are made to account for three factors:
  - Fully funding all personal services costs at the annualized total, and then applying a vacancy savings rate (the rate in the SWPLA is 4 percent)
  - Inflation on selected items, including gasoline and diesel
  - Fixed costs so agencies receiving services from centralized functions can pay for those services

Governor's Proposal

Present law changes comprise almost 90 percent of the total changes proposed by the executive, underscoring the small number of new proposals above the level of present law changes. General themes for general fund increases are applied:

- The executive generally funds anticipated caseload and utilization increases in human services and population increases in corrections, and provides an inflationary increase for K-12 education
- The executive funds all statewide present law adjustments, including 4 percent vacancy savings for most positions, and then applies a reduction to personal services through a new proposal to increase the vacancy savings rate from 4 percent to 7 percent for most positions and all funding sources, and to reduce the original inflation on fuel to 0 percent through an offsetting present law adjustment
- All other general fund present law increases within agencies are minimal. For many agencies, statewide present law adjustments are the largest and in many instances the only present law adjustment provided

The reduction in personal services through an increase in the vacancy savings rate from 4 percent to 7 percent constitutes an across the board cut for agencies of about 1.6 percent of operations (not including benefits and grants), although the impact on individual agencies and programs varies widely depending on how much of total expenditures for operations are for personal services.

Issue for Legislative Consideration-Can Existing Services be Maintained?

- There are several areas where the unknown duration and severity of the economic downturn could significantly increase present law costs beyond the amount in the executive budget.
  - As discussed on page 78, projections for Medicaid expenditures are very uncertain given the economic climate and lack of knowledge about the duration of the economic downturn. Periods of economic downturn generally increase the demand for Medicaid and other health services
  - The impact on more expensive secure care corrections populations if persons currently in less expensive community corrections placements cannot find work is also unknown
  - Projected interest and income that offsets general fund in K-12 education could be further negatively impacted by economic conditions, requiring general fund to assume more of the statutorily established level of Base aid to schools
- Under current funding, the Department of Corrections will have to move additional populations into community corrections, as secure care population projections are higher than the number of secure beds funded (see the Department of Corrections below)
- The Governor states that no programs or current jobs have been eliminated. However, the impacts on operations and service delivery from minimal present law adjustments to recognize on-going increases in costs and from an across-the-board reduction will likely be unknown until it begins to play out during the biennium. In addition, agencies will likely have to artificially keep positions open in order to

- meet the vacancy savings targets, or transfer funds from other areas of the budget, having an unknown impact on operations
- While direct care workers (positions that must be filled 24 hours a day, 7 days a week) are exempted from the additional vacancy savings rate, they were not exempted from the 4 percent reduction. Vacancy savings on these positions means that either critical positions are not filled, or the agency must fill the positions and/or take overtime and reduce expenditures in other areas of the budget. Among the programs with 24/7 positions are the men and women's prisons, Montana State Hospital in Warm Springs, the Montana Developmental Center in Boulder, the veteran's homes, the Montana Mental Health Nursing Care Center at Lewistown, and several other facilities in corrections and human services. A number of these institutions have had difficulty filling critical positions with current funding

Increases to K-12 Education are Generally Inflationary

Background

K-12 education is the single largest expenditure of general fund in state government, consuming $1,371.3 million and 36.1 percent of the total general fund (41 percent of HB 2). Therefore, small recommended percentage increases can result in large total dollar impacts. Because K-12 education is a significantly state and locally funded enterprise with a growing federal presence, it comprises only 17.4 percent of total funding (20.5 percent of ongoing HB 2).

Governor's Proposal

The Governor would increase general fund K-12 education funding by $62.5 million or 4.8 percent from the 2009 to the 2011 biennium, primarily with a proposed 3 percent increase in Base aid schedules and special education each year, along with special education increases for federal maintenance of effort requirements. The Governor has funded one new initiative to increase special education by 3 percent each year.

Issue for Legislative Consideration

- The Helena district court recently rejected plaintiffs' suit for additional funding for K-12, ruling that the state has made a good faith effort since 2004 to define and fund an adequate K-12 education in Montana

A further discussion of the agency and all issues begins on page E-6 of Volume 7 of the LFD 2011 Biennium Budget Analysis.

HIGHER EDUCATION ESSENTIALLY IS FUNDED AT FY 2009 LEVEL

BACKGROUND

Higher education (Montana University System) is $366.8 million ongoing general fund in the 2011 biennium proposed budget ($516.5 million total funds), or 9.7 percent of total general fund expenditures and 11.0 percent of ongoing HB 2. State funding for the university system is only a portion of the total. Other funding sources such as tuition are not appropriated by the legislature.

GOVERNOR'S PROPOSAL

The executive would increase general fund by $10.4 million (2.9 percent) ongoing general fund and $0.3 million (0.1 percent) ongoing total funds. The Governor's proposed budget for higher education holds state funding for the Montana University System units and community colleges at approximately the FY 2009 level for the 2011 biennium state funding (FY2009 increases $15.0 million from FY 2008 primarily due to the College Affordability Fund). The Governor's proposed budget also funds student assistance programs implemented or expanded by the 2007 Legislature, including the Governor's Postsecondary Scholarship Program and the Educator Loan Forgiveness Program.

ISSUES FOR LEGISLATIVE CONSIDERATION

- The executive does not continue the College Affordability Plan adopted in the 2009 biennium to freeze tuition rates
- The revised executive budget essentially reduces state funding to the educational units and agencies to the FY 2009 level. Although state funding is at the approximate FY 2009 level, there are present law costs that will continue into the 2011 biennium and will have to be paid either from tuition increases or from expenditure reductions in other areas, such as the last quarter of the 2009 biennium pay plan. The Board of Regents has the responsibility and authority to determine tuition rates and establish budgets for the Montana University System

A further discussion and all issues begin on page E- 123 of Volume 7 of the LFD 2011 Biennium Budget Analysis.

HUMAN SERVICES CASELOAD AND UTILIZATION INCREASES OR REPLACEMENT DUE TO REDUCED FEDERAL MATCH RATE

BACKGROUND

Total spending for human services (Department of Health and Human Services) is $818.8 million general fund and $3.241.5 million total funds. These totals represent 21.6 percent of total general fund (24.5 percent of ongoing HB 2) and 33.7 percent of total funds (39.7 percent of ongoing HB 2). Major programs include Medicaid, TANF, SNAP (formerly food stamps), protective services for children and seniors, developmental disabilities services, mental health services, and a variety of other programs, including public health. Most of the budget funds payments to service providers (such as medical providers) and for costs at six state institutions that provide medical services. As with K-12 education, given its size, small changes can have a significant impact on expenditures.

GOVERNOR'S PROPOSAL

Excluding one-time-only appropriations, the Governor provides a 10.0 percent, or $293.4 million increase in total funding (9.8 percent and $73.2 million general fund) from the 2009 biennium to the 2011 biennium. The Governor would fund all anticipated caseload increases (see issue below), and would replace federal funds with general fund to account for a reduction in the FMAP rate (the percent of Medicaid costs funded with federal funds). The Governor would also fully fund the Healthy Montana Kids (I-155) initiative passed by the voters in November 2008, at a cost of over $33 million state special revenue (from general funds) and $104.6 million total funds in the 2011 biennium (the executive may request additional funds in FY 2009).

ISSUES FOR LEGISLATIVE CONSIDERATION

- Projecting Medicaid expenditures is highly uncertain at this time, given the rapidly changing economic condition. Payment lags in the cost data used to develop projections do not reflect the impact of the economic downturn. Typically, Medicaid caseloads increase in periods of recession/high unemployment
- The Healthy Montana Kids initiative is fully funded in the executive budget. However, the budget assumes federal approval of state plan amendments and that federal reauthorization and significant expansion (nearly doubling federal funds) of CHIP will occur in early 2009. Montana's federal CHIP allotment will run out by July 2009. Without significant increases in the federal CHIP grant, current enrollment cannot be maintained, let alone fund additional children through Healthy Montana Kids. If federal matching funds aren't provided, CHIP funds would go unexpended

- The Governor's budget assumes federal reauthorization of the hospital utilization fee ($134.1 million in total funds over the 2011 biennium for supplemental payments to hospitals to cover the cost of uncompensated Medicaid services) with a backup request for an unspecified amount of general fund if the legislation fails

A further discussion of the agency and all issues is included in Volume 4 of the LFD 2011 Biennium Budget Analysis.

CORRECTIONS PROPOSALS FUND POPULATION INCREASES AND ANNUALIZE PROGRAMS BEGUN IN THE 2009 BIENNIUM

BACKGROUND

Corrections, which includes both secure placements such as the men and women's prisons and non-secure placements such as probation and parole, totals $360.5 million general fund, or 9.5 percent of all general fund appropriations (10.7 percent of ongoing HB 2). Because it has very little other funds, it comprises only 3.9 percent of total funding.

GOVERNOR'S PROPOSAL

Ongoing funding, which is over 97 percent general fund, would increase by 5.7 percent, or $19.8 million from the 2009 biennium. Requested increases for annualization and expansion of beds (and probation and parole slots) of $37.4 million are offset by the anticipated reversion of $15 to $17 million in the 2009 biennium. The executive budget includes funding for an average (overall) 4.6 percent increase (4.6 percent in FY 2010 and 4.7 percent in FY 2011) in populations, and to maintain corrections populations at 80 percent non-secure/20 percent secure. The executive also annualizes programs begun in the 2009 biennium.

ISSUES FOR LEGISLATIVE CONSIDERATION

- Requested increases are offset by anticipated reversion of $15 to 17 million general fund, of which 30 percent or about $5 million would be available to the department to carry-forward and expend in the 2011 biennium
- ADP increases are estimated to be 30 and 76 offenders in FY 2010 and 2011, respectively, greater than the number of offenders supported by the executive request
- The executive proposes reducing the base budget funding level for juvenile placements by $1 million per year

A further discussion of the agency and all issues begins on page D-138 of Volume 6 of the LFD 2011 Biennium Budget Analysis.

FIRE SUPPRESSION COSTS ARE PROVIDED UP-FRONT FUNDING

BACKGROUND

Montana has fire costs each year. These costs have ranged widely from year to year based upon the individual fire seasons but are generally increasing rapidly, going from an average yearly cost of $7.0 million prior to FY 2006 to $17.7 million this biennium. Prior to the 2009 biennium, when the legislature in special session provided up-front funding, only a small amount was appropriated by the legislature prior to the start of fire season. Instead, the Department of Natural Resources and Conservation (and to a lesser extent the Department of Military Affairs) covered all costs from within its general fund budget and from the Governor's emergency fund until the legislature met and could provide a supplemental appropriation. The 2008 fire season costs overwhelmed this mechanism.

GOVERNOR'S PROPOSAL

The Governor would provide up-front funding for the costs of wildland fire suppression by eliminating the expiration of the special fund created in the September 2007 Special Session, providing about $33 million during the biennium. This fund was originally established with general fund to address potential costs in FY 2009, which were significantly lower than the previous year and the 7-year average.

ISSUES FOR LEGISLATIVE CONSIDERATION

- If the 7-year average fire cost is maintained in the 2011 biennium, the funding set aside by the executive would not be entirely sufficient to fund wildland fire costs, and a supplemental appropriation would be required of the next legislature for any additional costs
- Since there is no proposal for a mechanism to replenish the fund, the Governor has not addressed a long-term funding source for fire costs beyond the 2011 biennium

A further fire costs discussion, including a summary of recommendations of the interim fire committee, begins on page C- 244 of Volume 5 of the LFD 2011 Biennium Budget Analysis.

TRANSPORTATION FUNDING IS PRECARIOUS

BACKGROUND

Transportation funding in the Montana Department of Transportation is one of the largest expenditures of state government, and comprises 11.5 percent of total state funding (34.8 percent of total ongoing state special revenue in HB 2) in the proposed executive budget. Operations are entirely funded with state special revenues and federal funds. The executive includes language to re-appropriate up to $2.6 million of any 2009 biennium general fund remaining for rail litigation.

GOVERNOR'S PROPOSAL

Ongoing total funding for the Department of Transportation would increase by $31.2 million, or 2.9 percent. The solvency of the highways state special revenue account (HSSRA) is in question in the 2011 biennium, although the executive matches and appropriates all anticipated federal funds.

ISSUES FOR LEGISLATIVE CONSIDERATION

- The HSSRA is in a precarious position, while the federal funding source is broke and the regularly scheduled federal reauthorization is due. These two factors make determining the amount of total funds available for transportation, and the resulting impact on the driving experience and safety, problematic
- Federal economic stimulus packages that focus on infrastructure could mean additional funding for highway construction and/or maintenance

A further discussion of the agency and all issues begins on page C-123 of Volume 5 of the LFD 2011 Biennium Budget Analysis.

EXECUTIVE PAY PLAN PROPOSAL

Background

A pay plan provides for salary and/or benefit increases for state employees over the biennium. For several biennia, any increases have generally been provided beginning on October 1 of each fiscal year, and have been phased in over the biennium. Consequently, future biennial costs exceed the current biennium costs.

Governor's Proposal

The executive budget includes a pay plan costing a total $18.7 million general fund and $32.6 million total funds over the biennium that consists of three parts. It does not include any percentage increase for employee salaries to cover either cost of living or maintenance of market position. (Please note that the figures below are for the proposal received on December 18, and do not precisely tie to the amounts in the executive's December 15 balance sheet):

- An increase in the state contribution toward health insurance of $53 per month beginning on January 1, 2010 and a further $54 per month beginning on January 1, 2011 (July 1 of each fiscal year for the Montana University System) that costs $11.6 million general fund and $20.2 million total funds
- A one-time biennial payment of $450 for all full-time (1.00 FTE) employees and $225 for all 0.50 to 0.99 FTE making $45,000 or less in base salary, which would cost $3.1 million general fund and $5.2 million total funds
- A contingency fund for agencies that cannot meet the vacancy savings reductions included in HB 2 (7 percent for most positions and all funding sources) of $4.0 million general fund and $3.0 million other funds, and a $75,000 general fund appropriation for training.

Issues for Legislative Consideration

- According to Department of Administration officials, dependent premium costs for employees will likely increase by an additional $23 per month in 2010 and a further $26 per month in 2011. Therefore, employees with dependent premium will see a reduction in purchasing power in this pay plan. According to administration officials, the $450 one time payment to employees making less than $45,000 per year is intended to reduce the loss of purchasing power
- Retired state employees are allowed to remain in the state system if they pay the premium costs, which is subsidized by active members; the legislature may wish to examine this policy
- The pay plan is an important part of the equation when discussing the ability of state government to retain and recruit qualified personnel to do the job expected by the legislature, but the plan is generally not discussed in concert with HB 2

A further discussion, including issues and options for legislative consideration, is in the "Major Issues Facing the Legislature" section beginning on page 95 of this volume.

EXECUTIVE PROPOSAL ONE-TIME-ONLY EXPENDITURES

The Governor has proposed almost $55.0 million general fund and $301.6 million total funds for one-time-only expenditures in the 2011 biennium. Figures 3 and 4 show the proposed general fund and total funds one-time-only expenditures, which are discussed in more detail on page B-3 in the appendix.

Figure 3 shows general fund proposals:

Figure 3

Executive Budget One-Time Only Initiatives - General Fund Figures in Millions				
Description of Initiative	Budgeted FY 2010	Budgeted FY 2011	2011 Biennium	% of Total
HB 2 Present Law Adjustments	$3.392	$0.208	$3.600	6.5%
HB 2 New Proposals	7.966	3.728	11.694	21.3%
HB 5 20 x 10 Initiative	14.700	7.260	21.960	39.9%
HB 10 Information Technology	5.500	-	5.500	10.0%
HB 13 Pay Proposal	5.546	1.471	7.017	12.8%
Water Compact Legislation	5.000	-	5.000	9.1%
Statutory Appropriation for Arbitrage	-	0.215	0.215	0.4%
Total One-Time Only	$42.104	$12.882	$54.986	

HB 2 Present Law Adjustments

There are several present law adjustment decision packages totaling $3.6 million that are designated as one-time only requests. The largest two of these are for motor vehicle license plate renewal and reissue totaling $3.2 million.

HB 2 New Proposals

Twenty-eight new proposal decision packages totaling $11.7 million are included in the executive proposal and designated as one-time only. The largest of these are for a high performance computer operations initiative at $2.0 million, the Department of Commerce new workers program at $1.9 million, a health information initiative at $0.75 million, and funds for the Meth Watch Program at $0.5 million.

HB 5 "20 x 10" Initiative

There is $21.96 million general fund requested for various Long Range Building energy conservation projects related to the Governor's "20 x 10" initiative. The program would upgrade various aspects of state buildings in order to achieve reduced energy use and the related savings. More is discussed in Long-Range Planning – Section F of the Legislative Budget Analysis.

HB 10 Information Technology

The executive includes $5.5 million general fund for two information technology initiatives: 1) $3.5 million for moving expenses for the Enterprise Systems Services Centers, and 2) $2.0 million for matching funds for federal funds for the Interoperability Montana Communication Project.

HB 13 Pay Proposal

The pay plan proposal includes $5.5 million in FY 2010 and $1.5 in FY 2011, for the cost of pay plan contingency intended to assist agencies that are unable attain the 7 percent vacancy savings, the labor/management training costs, and the one-time biennial payment provided for in the pay plan for certain employees.

Water Compact Legislation

The executive requests $4 million general fund for the Blackfeet Water Rights Compact and $1 million for the Fort Belknap Water Rights Compact.

Statutory Appropriation for Arbitrage

Since the state is not allowed to profit from interest earned on unspent, non-taxable, bond proceeds, $215,000 general fund is requested to rebate excess earnings, or bond arbitrage, calculated for a past bond issue to the federal government.

Total fund proposals are shown in Figure 4.

Figure 4

Executive Budget One-Time Only Initiatives - Total Funds
Figures in Millions

Description of Initiative	Budgeted FY 2010	Budgeted FY 2011	2011 Biennium	% of Total
HB 2 Present Law Adjustments	$7.426	$2.796	$10.222	3.4%
HB 2 New Proposals	14.341	9.098	23.439	7.8%
HB 5 20 x 10 Initiative	14.700	7.260	21.960	7.3%
HB 5 Maintenance & Acquisition	77.562	-	77.562	25.7%
HB 10 Information Technology	99.752	-	99.752	33.1%
HB 13 Pay Proposal	10.256	2.181	12.437	4.1%
School Trust Bonds	21.000	-	21.000	7.0%
Wildfire Account	30.000	-	30.000	9.9%
Water Compact Legislation	5.000	-	5.000	1.7%
Statutory Appropriation for Arbitrage	-	0.215	0.215	0.1%
Total One-Time Only	**$280.037**	**$21.550**	**$301.587**	

HB 2 Present Law Adjustments

There are several present law adjustment decision packages totaling $10.2 million total funds that are designated as one-time only requests. Present law adjustments are adjustments to the base budget intended to maintain the level of services authorized by the previous legislature.

HB 2 New Proposals

Numerous new proposal decision packages totaling $23.4 million total funds are included in the executive proposal and designated as one-time only. New proposals are requests over and above the present law budget and represent new spending initiatives to add services not included in the previous budget, or may also be a change in funding or the change or elimination of existing services.

HB 5 "20 x 10" Initiative

The $21.96 million requested for various Long Range Building energy conservation projects related to the Governor's "20 x 10" initiative is entirely general fund as discussed above.

HB 5 Maintenance and Acquisition

The executive request includes $77.6 million for the Long-Range Building Program primarily for the maintenance of state buildings and $2.0 million for the purchase of additional state parks land.

HB 10 Information Technology

The executive includes $99.8 million total funds for eight information technology initiatives, with the larges share being for the replacement of the Medicaid management information system ($65.5 million) and an upgrade to the unemployment insurance tax system ($19.7 million).

HB 13 Pay Proposal

The pay plan proposal includes $10.3 million in FY 2010 and $2.2 in FY 2011, for the cost of pay plan contingency intended to assist agencies that are unable attain the 7 percent vacancy savings and the one-time biennial payment provided for in the pay plan for certain employees.

School Trust Bonds

The executive requests $21 million state special revenue for the purchase of additional School Trust lands to increase school trust land revenues in the long term.

Water Compact Legislation

The $5.0 million requested for water compacts is entirely general fund as discussed above.

Statutory Appropriation for Arbitrage

The $215,000 requested for this item is entirely general fund as discussed above.

LFD ISSUE

Items Listed as OTO are On-Going and Should be Considered when Determining Structural Balance

The OTO designation should allow the legislature to examine the Governor's proposals with some assurance that costs will not continue into future biennia, and can therefore truly be excluded from consideration when determining whether the budget is structurally balanced. However, not all of the proposals designated as OTO meet this standard. Consequently, the legislature must examine each OTO closely to determine if it in fact should be considered within the discussion of maintenance of a structural balance.

OTO Proposals
2011 Biennium Executive Budget
Figure 5

Continuations of On-Going Programs/Other Continuing	
Economic Development	$6,560,244
Pay Plan Contingency and Training***	3,075,000
Justice - Meth Watch Continue	500,000
COPP - Additional Legal Costs	118,000
Gov - Executive Residence	50,000
Potential Future or Associated Costs	
Blackfeet Water Rights Compact	4,000,000
Fort Belknap Water Rights Compact	1,000,000
Ag - Invasive Species Advisory	660,000
Various IT systems	*
On-going Costs Within the OTO	
DNRC Central Services Legal Imaging**	17,000
Livestock Brand Enforcement System Lease	11,100
Total	$15,991,344

*Specifics not known, but character of many projects would lead to maintenance and other costs
**Department states that ongoing costs will be absorbed in the base budget.
***Includes the traditional contingency amount. Total contingency proposed is $4.0 million.

The Governor has a number of OTO proposals that fall into one or more of the following categories:

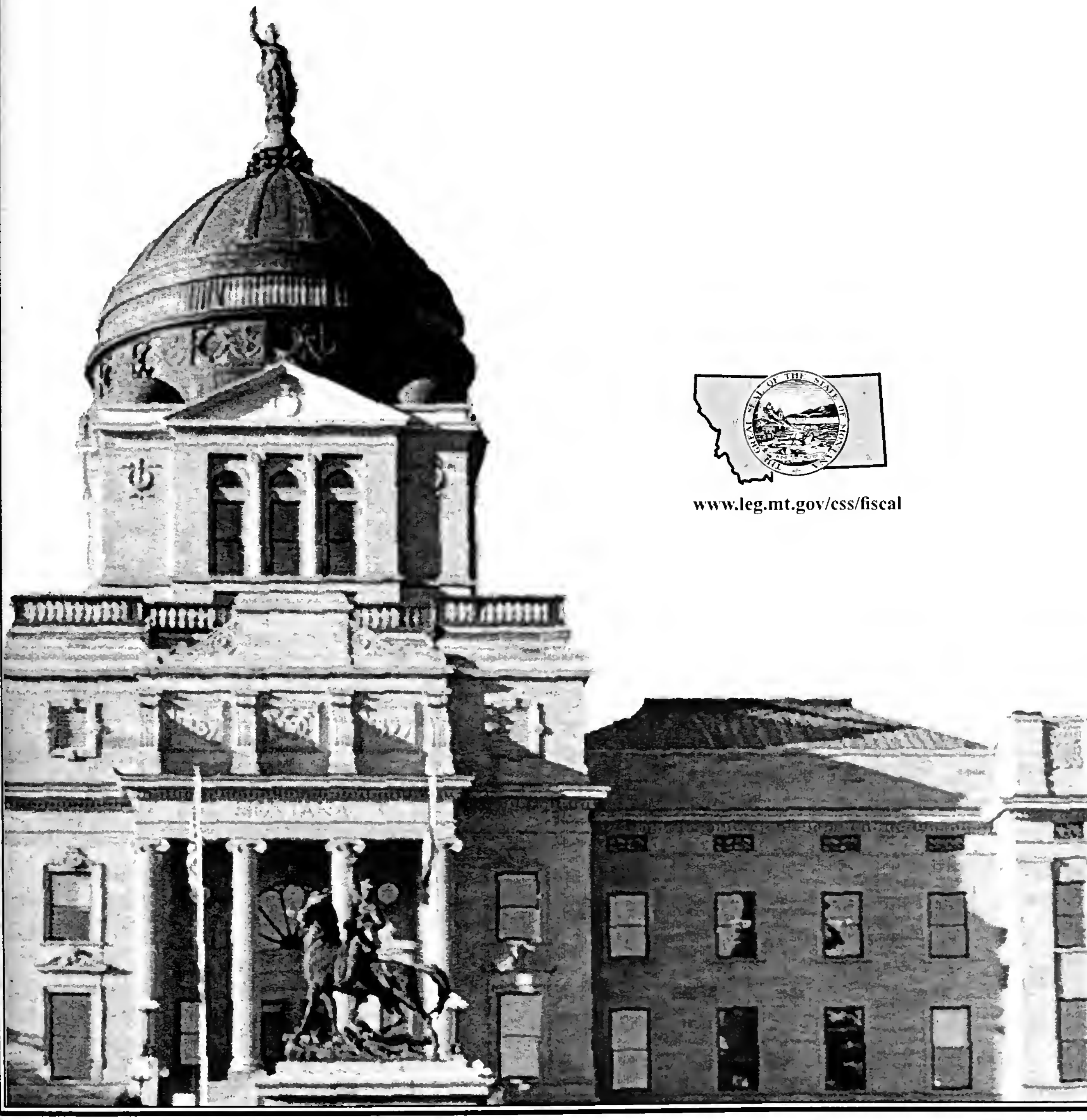
- Continuations of programs funded by previous legislatures, and not OTO in practice and likely to continue into future biennia
- Other programs and/or activities that are likely to continue into future biennia
- Have associated current or future costs
- Have on-going costs as a component of the total OTO request

Figure 5 summarizes proposals that fall into the various categories.

LFD COMMENT

Even if all proposed expenditures designated as OTO truly meet that standard, proposed OTO expenditures should be examined with care for the impact they have on the ending fund balance for the 2011 biennium and the amount the 2011 Legislature will have to work with going into the next session. Because of the uncertainty of potential revenue collections in the coming months, as well as the potential impact on expenditures of economic downturn, the amount of the ending fund balance is of critical importance.

Major Issues Facing the Legislature



www.leg.mt.gov/css/fiscal

Major Issues Facing the Legislature

This chapter provides a discussion of a number of budget issues that are not described in any detail elsewhere in this volume. These major issues are divided into two categories: 1) issues that related to the executive budget, and 2) other issues of which the legislature needs to be aware. Those issues are listed below and discussed further in the pages that follow.

Executive Budget – Other LFD Issues

- Lack of Measurable Performance Indicators
- Structural Balance
- Post-Session – What Happens if Revenues Fall?
- Pay Plan - Issues
- Undeveloped Budget Proposals

Other Fiscal Issues for Legislative Consideration

- Montana State Fund "Old Fund" Liability
- Pending Lawsuits
  - K-12 Education
  - State Fund
- Wildfire Funding
- Long-Term Stability of the General Fund
- Fund Balance Adequacy/Reserves
- Highway State Special Revenue Account Decline in Working Capital Balance
- Pension Plans Unfunded Liability

LACK OF MEASURABLE PERFORMANCE INDICATORS

WHAT IS PERFORMANCE MEASUREMENT?

Performance measurement is a best-practice tool used widely across the nation by governments and other organizations to answer a number of very basic questions about the how and why of what the government/organization does, and the amount of resources necessary to make it happen. By using performance measurement in government, taxpayer dollars are better assured of being used in the most efficient way for the highest priorities.

The center mechanism for this process is to articulate clear goals, and provide objectives for determining whether things are moving in the right direction in an acceptable period of time and at an acceptable resource level to accomplish the goal. Objectives are not simply a list of tasks performed by the program. Rather, they articulate measureable outcomes expected, such as the percentage reduction in the number of teenage pregnancies over the 2011 biennium or the percentage increase in the number of students who graduate from high school in the next two years.

WHY IS PERFORMANCE MEASUREMENT IMPORTANT?

Performance measurement, when fully implemented, will be a quantum leap forward in the legislative budget process. With well crafted goals and objectives, it allows the legislature to answer a number of questions basic to its constitutional duty to fund state government.

- Why does government spend money? What is it trying to accomplish (what are its goals)? Is it accomplishing its goals? How does it determine whether the goals are being met?
- Put another way, are people better off because of the expenditure of state funds? Are enough people better off in an acceptable period of time to justify the expenditure?
- In a world of critical priority setting, which programs are meeting the most critical goals in the most efficient manner? What resources do programs providing high priority services need to do the job most efficiently and successfully?
- What information is needed to make this determination?

It is to help in answering these questions that state statute requires that the executive budget include goals and objectives for each program, and that the goals and objectives include "...sufficient specific information and quantifiable information to enable the legislature to formulate an appropriations policy regarding the agency and its programs and to allow a determination, at some future date, on whether the agency has succeeded in attaining its goals and objectives."

CONSISTENTLY IDENTIFIED ISSUES

LFD staff, as part of the analysis of the executive budget, also examined the goals and objectives submitted by each program to aid the legislature in establishing appropriations. While all programs submitted goals in some fashion, there were a number of consistently observed issues that reduce their usefulness in allowing the legislature to establish appropriations policy, including:

- Goals were presented, but they had limited applicability to the specific purpose of the program
- Objectives for meeting the goals were not presented, which means that there is no way of determining how the program would achieve the goal or whether the program is even moving in the right direction
- Objectives were presented, but they were simply lists of tasks that would be performed, which did not necessarily equate to achievement of goals. For example, one program stated its goal was to operate correctional programs that emphasize offender accountability and rehabilitation, staff professionalism and responsibility, public safety, and efficient use of taxpayer dollars. Its objectives in meeting the goals were to maintain accurate position descriptions and complete monthly inmate evaluations that are consistent with the position descriptions. As written, the objectives were simply tasks performed, and could not be used to indicate whether the goal of operating correctional programs that emphasize offender accountability and rehabilitation, staff professionalism and responsibility, public safety, and efficient use of taxpayer dollars was being met

LACK OF MEASURABLE OBJECTIVES

The most common issue raised in the analysis, and the one that is the most challenging to the legislature in determining success and adequacy of funding levels, was that most objectives did not allow for the measurement of progress or identification and correction of challenges.

During the 2009 interim, the Legislative Finance Committee (LFC) partnered with agencies to track several goals and objectives throughout state government. The following comparison between the objectives discussed with the LFC by the Public Health and Safety Division of the Department of Public Health and Human Services (DPHHS) and the objectives submitted in the budget serves as an illustration of the necessity and value of providing measurable objectives. The goals and objectives used in this example are only a sample of the broader range identified and discussed by the division.

Example:

State and federal governments place a high priority on smoking cessation programs, not only for the direct benefit to individuals, but because of the significant expenditures made by governments to treat persons with smoking-related conditions and because of lost productivity. Therefore, the efficacy of expenditures to desired outcomes is of high importance, and the federal government requires states to extensively report on a number of benchmarks. The following goals encompass this effort.

Goal: Reduce the burden of chronic disease, injury, and trauma in Montana

Objectives Discussed with LFC

- By June 2009, decrease the proportion of high school student who report smoking cigarettes in the past 30 days from 20 percent (2007) to 18 percent
- By June 2009, decrease the proportion of high school students who report spit tobacco use in the past 30 days from 13 percent (2007) to 11 percent

Goal: Improve the health of Montanans to the highest level possible (the only goal submitted for the entire division)

Objectives Included in Budget Submission

- Continuously reduce the proportion of high school students smoking cigarettes in the last 30 days
- Continuously reduce the proportion of adults currently smoking

With the first set of objectives, specific, measurable, time bound objectives are included that allow the program to gauge progress and success, and would alert both the program and the legislature when efforts need to be adjusted. Note also that the objectives are not simply a list of tasks the program will do, but actual outcomes of those efforts.

The second set of objectives provides no means of determining what constitutes success. For example, does spending several million dollars for a minor reduction in the proportion of smoking constitute success? How does the program or the legislature determine whether the expenditure of funds is effective and efficient, or whether those funds could be more effectively used elsewhere?

As the legislature examines each program's budget, it may wish to discuss with the program what goals it is attempting to further, and how the program and the legislature can determine what successes are being achieved, what challenges exist, and how the appropriation process can be used to aid in achievement of success.

STRUCTURAL BALANCE

GENERAL FUND

Structural balance refers to the balancing of on-going expenditures with on-going revenues. If revenues equal or exceed expenditures, then structural balance is achieved for the short-term. If expenditures exceed revenues, then structural imbalance occurs. Figure 1 shows historical data for both revenues and expenditures since FY 2000. It should be noted that the data for FY 2000 through 2009 represent total revenues and expenditures and have not been adjusted to reflect "on-going" amounts. Since this type of categorization has not been maintained on a historical basis, the only on-going amounts shown in Figure 1 are for FY 2010 and 2011.

Total general fund revenues exceeded total expenditures for 6 of the past 9 years from 2000 to 2008 (see Figures 1 and 2). In the mid- to late-1990's, the legislature placed a concentrated effort on achieving structural balance and made significant progress, reaching a sizable positive balance in FY 2000. It should be noted that during this time, Montana, as well as other states, were reaping the benefits of an information technology boom and the significant increase in individual income taxes due to capital gains income. The pendulum, however, shifted the other way beginning in FY 2001, where revenues were slightly above expenditures. The unprecedented revenue shortfall in the 2003 biennium intensified the imbalance heading into the 2005 biennium.

Figure 1

General Fund Structural Balance
Figures in Millions

		End. Fund Balance	Yearly Adjustments	Yearly Revenue	Yearly Disburse	Yearly Sur./(Def.)	Biennial Revenue	Biennial Disburse	Biennial Snr./(Def.)
A	2000	$176.000	$8.287	$1,163.638	$1,105.599	$58.039			
A	2001	172.897	(3.637)	1,269.472	1,268.938	0.534	2,433.110	2,374.537	58.573
A	2002	81.316	(1.391)	1,265.713	1,355.903	(90.190)			
A	2003	43.065	(8.805)	1,246.381	1,275.827	(29.446)	2,512.094	2,631.730	(119.636)
A	2004	132.873	(9.719)	1,381.565	1,282.038	99.527			
A	2005	299.792	(10.010)	1,530.949	1,354.020	176.929	2,912.514	2,636.058	276.456
A	2006	422.209	(19.010)	1,708.166	1,566.739	141.427			
A	2007	543.541	(7.767)	1,829.872	1,700.773	129.099	3,538.038	3,267.512	270.526
A	2008	437.677	9.641	1,953.540	2,069.045	(115.505)			
F	2009	387.148	5.100	1,885.741	1,941.370	(55.629)	3,839.281	4,010.415	(171.134)
F	2010	363.552	(1.934)	1,816.452	1,838.114 *	(21.662)			
F	2011	374.345	10.481	1,893.490	1,893.178 *	0.312	3,709.942	3,731.292	(21.350)

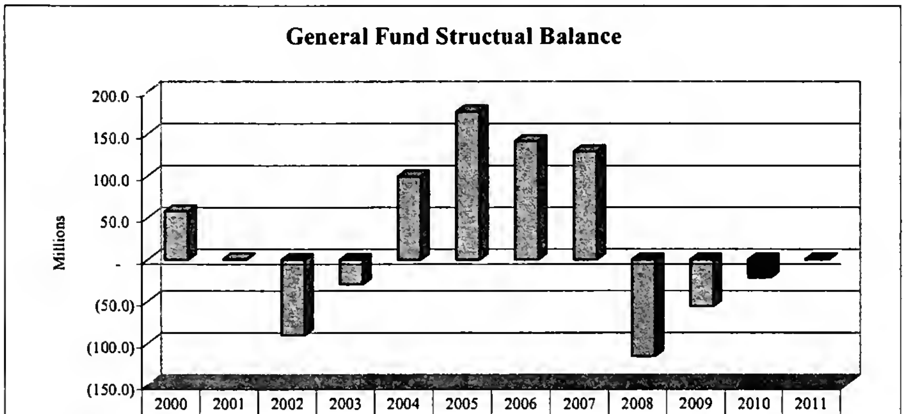
* Executive Budget On-going Proposals

Historically, the legislature has faced the ever-present difficulty of holding down budget growth when confronted with double-digit growth in correction costs, increased human service demands, and pressures for increased education funding. The 2007 legislature enacted a structurally balance budget, but as Figure 1 shows, it is projected to end the 2009 biennium with a structural imbalance. Again, this is because the data

shown for the 2009 biennium reflects total revenues and expenditures and has not been adjusted to show on-going amounts. During the 2009 session, the legislature will face a proposed biennial budget that is structurally imbalanced for the 2011 biennium. But as Figure 1 portrays, structural balance is achieved for FY 2011.

Figure 2 shows that the anticipated revenues as projected by the LFD are \$21.4 million below on-going expenditures in the executive budget proposal for the 2011 biennium. Further, the simple assessment of structural balance as matching on-going revenues to on-going expenditures, while useful to ensure short-term sustainability, is not a good measure of long-term sustainability. Issues such as the likely reduction in federal fund support (due to federal action to reduce a huge deficit) or considerations of future funding pressures (such as the cost of an aging population or the reversal of declining school populations) require more in-depth analysis than is used in the current calculation of structural balance. These issues are discussed in more detail in an assessment of longer term sustainability of the general fund, beginning on page 106 of this volume.

Figure 2



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Balance	58.0	0.6	(90.2)	(29.4)	99.6	176.9	141.5	129.1	(115.5)	(55.7)	(21.6)	0.3

Expenditure Proposals

There are several ways in which structural balance can be adversely impacted in subsequent biennia, on the expenditure side:

- Expanded expenditure growth, as is common with caseload driven entitlement programs such as Medicaid, can adversely impact structural balance
- Realization of delayed implementation of expenditures. Annualization of the 2011 biennium pay plan, which delay implementation until mid-year, will require additional funding in the 2013 biennium
- Growth in services arising from expansions in such programs as Medicaid or from increases in prisoner populations supervised by the Department of Corrections. For any increase in annual expenditures, there must be on-going revenue with which to fund it. In order to attain or maintain a structural balance, annual revenue growth must equal or exceed expenditure growth

- Growth in services arising from known demographic or other economic changes, such as the cost of an aging population

GENERAL FUND - CONCLUSION

From a short-term view point of assessing structural balance related to matching on-going revenues with on-going expenditures, the executive budget for the 2011 biennium is structural imbalanced. Reviewing each fiscal year individually, there is a structural imbalance in FY 2010 of $21.7 million but a structural balance of $0.3 million in FY 2011. Achieving long-term sustainability requires a more in-depth assessment and is a significant policy issue the legislature should address in order to make the budget process less problematic for both the legislative and executive branches in subsequent biennia. See the discussion of sustainability on page 106 of this volume.

OTHER FUNDS

In addition to issues of structural balance in the general fund, there are issues of structural balance in some of the state special revenue accounts included in the executive budget. A number of functions of state government are funded from accounts that receive their income from dedicated taxes and fees. One example is the highway special revenue account, which funds highway construction and maintenance and safety related costs. This fund is in a chronic state of structural imbalance due to an inelastic revenue source and inflationary construction costs. While the highways account is structurally balanced through the 2009 biennium, it is only because highway projects have been cut back to fully meet federal match opportunities, but reduce state funded projects. These are serious questions of long-term sustainability. In other parts of the executive budget, the legislature will find instances in which the executive has proposed expenditures that exceed revenue. By budgeting from these accounts at expenditure levels that exceed on-going revenues, the executive draws down the fund balance and creates program expenditure levels that cannot be sustained. Therefore, future legislatures would be faced with reducing program expenditure levels or increasing revenue. In agency sections of the Legislative Budget Analysis, staff has identified those instances in which expenditures from an account exceed anticipated on-going revenues.

Post Session – What Happens if Revenues Fall?

Budgeting is not an exact science and requires a significant amount of economic and budgetary forecasting. Since Montana adopts a budget on a biennial basis, numerous forecasts must be prepared almost three years in advance. During this period of economic uncertainty, it is likely that the budget outlook for the 2011 biennium could vary widely from month to month. To provide a perspective, every one percent change in revenues amounts to approximately $36 to $37 million for the biennium. A ten percent downturn in revenues would be close to $360 to $370 million for the biennium, equivalent to the entire Department of Corrections general fund biennial budget.

What happens if revenues fall after the legislature adjourns? This question cannot be answered without knowing the policy issue of an ending fund balance. If the legislature adjourns with a minimal ending fund balance (about $50 million), then MCA 17-7-140 provides statutory guidelines to the executive in the event of a revenue shortfall. In essence, this section of law requires the executive to submit a "reduction in spending plan" to the Legislative Finance Committee (LFC) prior to implementing reductions in spending. The LFC, after receipt of this plan, may submit recommendations to the executive prior to the executive implementing spending reductions. If spending reductions of more than ten percent are required to maintain fiscal solvency, then the Governor would be obligated to call a special legislative session to address the fiscal conditions.

If the legislature adjourns with a higher projected ending fund balance (executive recommends $295 million), then the excess balance would be used in the event of a revenue downturn. There are policy issues relevant to budgeting for a higher ending fund balance. First, using an ending fund balance in the advent of a revenue shortfall does not provide the legislature the opportunity to re-prioritize spending during a period of declining revenues. Today's priorities may not be the same six months from now. Second, using the ending fund balance for on-going programs could create a structural imbalance that could not be addressed until the next legislative session. This may limit the options available to the next legislature to address the fiscal imbalance. Third, if the revenue decline is longer term (beyond the biennium), then the utilization of an ending fund balance is not a prudent fiscal policy. This is merely a policy to "get you through the biennium". And finally, how high should the ending fund balance be? As mentioned above, a 10 percent decline in revenues for the biennium would be in the range of $360 to $370 million. Even the executive's proposed ending balance would not be adequate in that case. If the budgeted ending fund balance is not adequate to maintain solvency, then the provisions delineated in MCA 17-7-140 would be required.

The legislature may want to consider their involvement in the development of fiscal policies in the advent of a revenue shortfall. As discussed above, the existence of an unrestricted large fund balance reserve leaves the Governor much flexibility in determining a response to a revenue shortfall without calling the legislature into special session. Options to consider might include the setting aside a portion of the projected fund reserve into a rainy day fund or other restricted category that would require legislative action to access the funds.

PAY PLAN - ISSUES

The Governor has allocated $10.4 million in FY 2010 and $8.3 million in FY 2011 (biennial $18.7 million) general fund for a pay plan in the 2010 biennium. (Please note that the total is for the pay plan received December 18, and does not tie precisely to the Governor's December 15 balance sheet) There are two primary provisions of the pay plan:

- An increase in insurance of $53 per month (8.5 percent) in FY 2010 and a further $54 per month (8.0 percent) in FY 2011 to $679 per month in FY 2010 and $733 per month in FY 2011
- A one-time biennial payment of $450 for each 1.0 FTE and $225 for each 0.50 to 0.99 FTE who makes less than $45,000. The payment would not impact the employee's salary and would not be included in the base budget

The executive also includes $4.0 million general fund and $3.0 million other funds for a contingency for agencies that cannot meet the higher proposed vacancy savings rate of 7 percent, and $75,000 for training.

The following figure shows the total pay plan each year.

Figure 3

Governor's Proposed Pay Plan, by Year and Recipient
2011 Biennium

	– FY 2010 –			– FY 2011 –			– 2011 Biennium –		
Entity	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds
					— On-going —				
Insurance Increase									
Consumer Counsel	$0	$1,908	$1,908	$0	$5,760	$5,760	$0	$7,668	$7,668
Legislative Branch	41,022	0	41,022	123,840	0	123,840	164,862	0	164,862
Judicial Branch	133,322	6,599	139,921	408,240	19,920	428,160	541,562	26,519	568,081
Executive Branch	1,629,967	2,102,554	3,732,521	4,931,731	6,353,518	11,285,249	6,561,698	8,456,072	15,017,770
University System	1,429,997	54,696	1,484,693	2,885,088	110,424	2,995,512	4,315,085	165,120	4,480,205
Subtotal	$3,234,308	$2,165,757	$5,400,065	$8,348,899	$6,489,622	$14,838,521	$11,583,207	$8,655,379	$20,238,586
					— OTO —				
Lump-Sum Payment									
Consumer Counsel	$0	$527	$527	$0	$0	$0	$0	$527	$527
Legislative Branch	19,744	0	19,744	0	0	0	19,744	0	19,744
Judicial Branch	124,649	3,028	127,677	0	0	0	124,649	3,028	127,677
Executive Branch	1,838,668	2,146,937	3,985,605	0	0	0	1,838,668	2,146,937	3,985,605
University System	1,082,390	29,485	1,111,875	0	0	0	1,082,390	29,485	1,111,875
Subtotal	$3,065,451	$2,179,977	$5,245,428	$0	$0	$0	$3,065,451	$2,179,977	$5,245,428
Training Allowance*	75,000	0	75,000	0	0	0	75,000	0	75,000
Personal Services Contingency*	4,000,000	3,000,000	7,000,000	0	0	0	4,000,000	3,000,000	7,000,000
Total	$10,374,759	$7,345,734	$17,720,493	$8,348,899	$6,489,622	$14,838,521	$18,723,658	$13,835,356	$32,559,014

*Biennial appropriations

The following shows the biennial amount, by funding source and component.

Figure 4

Proposed Executive Pay Plan by Component
2011 Biennium

Component	General Fund	State Special	--- 2011 Biennium --- Federal	Proprietary	Total Funds
Insurance Increase	11,583,207	5,201,352	3,311,872	142,155	20,238,586
Lump-Sum Payment	3,065,451	1,347,925	794,572	37,480	5,245,428
Training	75,000	0	0	0	75,000
Personal Services Contingency**	4,000,000	1,781,472	1,169,215	49,313	7,000,000
Total	$18,723,658	$8,330,749	$5,275,659	$228,948	$32,559,014

*Does not include non-appropriated university funds or proprietary funds.
**The contingency is proposed by "general fund" and "other funds". Table is an extrapolation of funding for the other components.

LFD COMMENT

What Personal Services Goals is the Governor Addressing?

There are a number of potential goals for any pay plan:

- Maintenance or increase of purchasing power through one or both of two means:
  - Inflationary adjustments to salaries
  - Increase in benefits to meet rising medical and other benefits costs
- Attempts to recruit and/or retain qualified employees throughout state government, which is generally addressed through such measures as:
  - Adherence or regular movement to market salaries
  - Opportunities for career path advancement within and among job descriptions
  - Special allowance for difficult to hire/recruit positions
  - Longevity adjustments for continued service
- Statewide compensation equity among and within agencies for like work, the evidence for which is lack of a wide discrepancy in salaries as a percent of market (both experienced and starting positions), and similar movement to market over time for similar positions

Health Insurance and Salary Adjustment

The Governor has addressed maintenance of some portion of purchasing power in the provision of health insurance. According to division officials, employees paying a dependent premium will see an increase above the amount provided in the pay plan of $23 per month in 2010 and a further $26 per month in 2011. Officials indicate that this amount uses a best case assumption on prescription and medical cost trends, and the minimum reserve level recommended by the actuary. Consequently, employees would see a reduction in purchasing power. The one-time payment is designed in some measure to assist lower paid employees to cover increased costs of health insurance not covered by the monthly increase.

LFD COMMENT (CONT.)

Other Factors

In examining the lack of either a standard increase in base salary or a factor that addresses disparity to market or to similar positions in the Governor's proposal, there are a number of factors to keep in mind.

- General inflation (consumer price index – CPI) is expected to increase by about 1.7 percent in FY 2010 and 2.2 percent in FY 2011 (please note that medical inflation is a portion of this increase). Since inflation is expected and no salary increases are provided, state employees will lose some purchasing power under the Governor's proposal. However, the increase in benefits each month equates to a maintenance of most purchasing power for medical expenses, although some co-pays and deductibles will likely increase for employees with dependents
- Although in many instances the gap appears to be narrowing, information provided by agencies continues to show a discrepancy among agencies in percent of market for both starting and experienced employees, although no agency (with the exception of the Judiciary and the Office of the Public Defender), is below 80 percent in total. In addition, any advances to market must be done internally within the agency outside of the pay plan funding if the Governor's pay plan does not include a component that addresses salary progression. This has two impacts:
    - Agencies with fewer resources will be at both an actual and competitive disadvantage to agencies that have more available resources
    - A continuing larger and larger share of personal services adjustments will continue to be made outside of the pay plan and therefore outside of direct appropriation by the legislature

Agencies have used vacancy savings to make market and other salary adjustments. The executive proposal to increase the vacancy savings rate on most positions means that agencies will have less funding available to make these adjustments.

LFD COMMENT

Lump-Sum Payment Addresses Only Purchasing Power Goal

The lump-sum payment of $450 to full-time employees making less than $45,000 per year in base salary does not appear to have a goal other than to temporarily increase purchasing power. For example, anyone making the income threshold or less would get the increase, regardless of how near or far they were from the market salary for their position. Also, the eligibility for the increase is determined based on base salary, and does not consider whether the employee has longevity (additional salary due to length of service). Therefore, an employee doing the exact same job for the exact same base salary but making several percentage points above the base due to longevity would receive the same dollar increase.

LFD ISSUE

Active Employees Subsidize Premium Costs of Retired Employees

Current statute allows retired state employees to continue coverage under the state plan by paying for their premiums. Currently, retirees' premiums are set at the same level as active employees, even though their costs are higher. Therefore, active employees and the state share funded by the legislature subsidize these costs (the Montana University System, which has an independent, self-funded insurance plan, charges retirees at a higher rate than active, although they still are subsidized). While the subsidy for retirees over 65 and eligible for Medicare is low, the subsidy for retirees under 65 years of age can range from $200 to $300 per month per retiree.

The legislature may wish to articulate its policy on the provision of health insurance to current and retired employees, and whether it wishes to continue to subsidize retirees or use a portion of the funds saved by requiring retirees to pay a higher premium to reduce costs or increase other compensation for active employees.

Option

The 2009 legislature will discuss whether to fund a comprehensive study of the impacts on state revenues and expenditures of an aging state population, including an aging state workforce. The legislature may wish to incorporate this issue into that discussion, and direct the study to include a discussion of pay plan issues.

For a further discussion of all issues related to the state employee health plan, see the Health Care and Benefits Division discussion beginning on page A-212 of Volume 3 of the 2011 Biennium Budget Analysis.

LFD ISSUE

Integration of Pay Plan and Budgeting Discussions

Personal services is the single largest expenditure for most agencies, as most agencies directly provide services through the efforts of those employees. Consequently, issues pertaining to personal services and to their adequacy to meet certain goals of state government take on a high importance. The size and character of any pay plan is an important component in addressing those issues. Given its size and importance, the pay plan discussion should be integrated with other budgeting policy decisions of the legislature. Two examples are given:

- The adequacy and policy goals for the rates to fund the state employee health plan are discussed by the Joint Appropriations Subcommittee for General Government when it reviews the budget for the Health Care and Benefits Division of the Department of Administration, which operates the plan, in HB 2. However, this determination and issue discussion is not woven into discussion of the pay plan

- A large number of issues within state agencies pertain to the ability of agencies to recruit and retain qualified personnel to do the job the legislature expects. Salary and benefits, particularly in relation to competition with the private sector or others, are a significant part of those issues. Therefore, any discussion of the policy behind the pay plan, such as whether funds are used to provide an across-the-board increase or target certain professions, to allow flexibility in provision of market and other adjustments, to subsidize retirees or use those funds to recruit and retain active employees, or any number of other issues, should be discussed in tandem.

Option

The legislature may wish to expand the discussion of any pay plan proposal to include the broader goals the pay plan is designed to address, and how success of the pay plan in furthering those goals will be measured. As a part of this discussion, the legislature may wish to articulate specific reporting requirements on recruitment and retention issues and have the Department of Administration report to the Legislative Finance Committee and any other appropriate interim committees during the interim.

UNDEVELOPED BUDGET PROPOSALS

Under current statute (5-12-302, MCA), the duties of the legislative fiscal analyst (LFA) are specified in detail. One of those requirements is to "analyze the executive budget and budget requests of selected state agencies and institutions, including proposals for the construction of capital improvements". Statute (Title 17, Chapter 7, MCA) also dictates the level of detail required to be submitted as the executive budget The executive budget as submitted on November 15 and subsequently revised on December 15, 2008, contained several fiscal policy proposals that did not contain adequate details for the LFA to perform its statutory duty. For example, the executive budget proposes to mitigate the effects of property tax reappraisal. This is a significant tax policy initiative that has been advocated by this administration for most of the interim. The general fund balance sheet, as prepared by the executive, contained an estimate for "property tax mitigation" but did not contain any explanatory details on how this mitigation effort would be accomplished. Property classes three, four, and ten will all be impacted significantly by reappraisal cycle, but the executive budget does not explain their proposed tax policy dealing with this issue. Without explanatory details, the LFA can not perform its statutory duty and the legislature is hampered due to the lack of independent fiscal analysis by staff.

The executive budget also proposes to issue $21 million in bonds to purchase additional school trust land. The only details provided in the executive budget are the anticipated debt service payments to service the debt. It does not specify what type of land would be purchased, when the purchases would be made, what type of income would be generated from the lands purchased, how the lands purchased would be categorized as school lands, and other details necessary to prepare a cost benefit analysis. Again, without explanatory details, the LFD cannot perform its statutory duty and the legislature is hampered by the lack of fiscal analysis by staff.

There are other fiscal policy proposals that are contained in the executive budget that do not contain adequate explanatory details. In some instances, staff can refer to draft legislation that may assist in preparing an analysis provided the draft legislation is available. In some cases, the draft legislation does not conform to the numeric references in the executive budget. In these cases, staff is faced with the conundrum of preparing a budget analysis that is pegged either to the printed executive budget or the draft legislation, and trying to determine which is the executive budget proposal.

The above are examples that staff encounter when performing the statutory duties as outlined in MCA 5-12-302(3). The legislature may want to consider statutory revisions that will enhance the submittal of budgetary details by the executive. One option is to clarify the level of detail required to be submitted with the executive budget. Another possible solution would be to accelerate the budget submittal dates so legislative staff would have adequate time to request additional budget details if the information submitted is inadequate. When major revisions to the executive budget are submitted on December 15, it is impossible for staff to ferret out details and have a complete analysis done prior to the convening of the legislature.

MONTANA STATE FUND "OLD FUND" LIABILITY

The Montana State Fund provides Montana employers with an option for workers' compensation and occupational disease insurance. Prior to 1990 workers' compensation experienced significant liabilities. The legislature restructured the state fund, and separated state fund liabilities between claims occurring before July 1, 1990 and claims occurring on or after that date. Funds relating to claims prior to July 1, 1990 are referred to as "Old Fund" and those on or after as "New Fund".

Statutes require that in any fiscal year where claims for injuries from accidents occurring before July 1, 1990 (Old Fund) are not adequately funded, the funds must be transferred from the general fund. As of June 30, 2008 the estimated liabilities exceeded assets by $36.5 million. At this time, the Old Fund is projected to have sufficient invested assets to meet its obligations until FY 2011, when an estimated $760,317 general fund would be needed to offset this shortfall. In FY 2012, the cost is estimated to be $8.0 million. As discussed below, two cases currently in the courts may affect both the amount of the liability and how long the fund has sufficient assets to meet its obligations.

The Governor's 2011 biennium budget proposal does not include any provision for transfer of general fund to cover a shortfall in the Old Fund. As stated above, the fund could need a general fund transfusion in FY 2011 to meet its estimated liabilities. It could either be dealt with by a transfer by the 2011 Legislature or by the 2009 Legislature.

PENDING LAWSUITS

STATE FUND

As discussed above, the state fund "Old Fund" projected shortfall is $36.5 million. In addition, two court cases brought against the Montana State Fund (MSF) may increase the general fund liability in the Old Fund by up to $117.9 million.

- *Satterlee* challenges the constitutionality of terminating permanent total disability and rehabilitation benefits when a claimant receives or becomes eligible to receive full Social Security retirement benefits or an alternative to that plan. A Montana Workers' Compensation Court judge ruled in favor of the respondents/insurers (including Montana State Fund) in December 2005. A request for reconsideration of the case was denied by the Montana Workers' Compensation Court. The case was appealed by the plaintiffs to the Montana Supreme Court. On December 11, 2008 the Montana Supreme Court issued an order dismissing *Satterlee* without prejudice as two constitutional issues remained for ruling on by the lower court. The Workers' Compensation Court ruled in MSF's favor on both issues. On July 1, 2008 *Satterlee* again appealed the decisions to the Montana Supreme Court. The potential estimated benefit costs for non-settled permanent total disability claims, if the statute is ultimately held to be unconstitutional and to apply retroactively, is between $93 and $116 million for the Old Fund.

- A second lawsuit, *Quick,* requests retroactive and future domiciliary care benefits for a claimant. The case is on appeal to the Montana Supreme Court. Should the Montana Supreme Court reverse the lower court decision and award retroactive domiciliary care prior to February 1, 2007, the potential estimated benefit costs are $1.9 million.

K-12 LAWSUIT

Columbia Falls v. State of Montana – On April 15th, 2004, the Helena District court under Judge Sherlock declared Montana's school finance system to be unconstitutional, holding in part that "the State's school finance system must be based upon a determination of the needs and costs of the public school system, and the school finance system must be designed and based upon educationally-relevant factors."

The Supreme Court issued an opinion on March 22, 2005, affirming the court's determination that the current system violates Article X, Section 1(3) of the Montana Constitution but deferred to the Legislature for the definition of 'quality' as used in that constitutional provision.

The 2005 legislature passed and the governor signed SB 152 defining a basic system of free quality schools, and created the Quality Schools Interim Committee. In December 2005, before QSIC had finalized a funding formula, the Governor called a special session of the legislature and four new components were added to the K-12 funding formula, costing the state approximately $35.0 million for fiscal 2007 in

ongoing state support and $33.5 million in one-time only funding. Subsequently in 2007, the legislature increased ongoing state support for K-12 for the 2009 biennium by $83.5 million, instituted full-time kindergarten, and instituted one-time only support of $45.0 million.

In February of 2008, the plaintiffs in Columbia Falls v State of Montana filed a motion in the district court alleging that the State's school funding formula still failed to provide adequate funding for fiscal year 2009. Plaintiffs also alleged that the current funding formula does not reflect the cost of a basic quality education and that the current formula contains elements that are essentially the same as those that were suspect in the original suit. The case was heard in Judge Sherlock's district court the week of September 22-26, 2008. The State argued that the QSIC had determined the cost of a basic system of quality education, and that the current spending levels by the K-12 system were actually above those costs, and that the changes to the K-12 system legislated in the past four years – the four new components, three year averaging of ANB, full-time kindergarten, inflation of the basic and per-ANB entitlements and special education, and increased guaranteed tax base aid – represented nearly 17 percent of 2009 district general fund budgets. On December 9, 2008, the District Court declined to grant any supplementary relief to Plaintiffs.

While the most recent court action upheld the state position, it is not yet clear whether there will be an appeal, and the issue of adequate funding for schools is likely to be contested well into the future. The legislature needs to be aware of this issue as it considers the budget for K-12 education.

WILDFIRE FUNDING

Montana has incurred obligations for fire suppression costs of $53.0 million in FY 2008 and $6.0 million in FY 2009 for a total of $59.0 million for the biennium.

Historically, fire costs have been paid temporarily from the Forestry Division's general fund appropriation and through the Governor's statutory emergency appropriation if an emergency or disaster is declared. The department is then reimbursed and all other bills, except those paid with emergency appropriation authority, are funded through a supplemental appropriation. This "unfunded liability" approach to such a significant biennial cost, especially with the dramatic increase in wildlfire costs, has been significant, and in some cases, has resulted in special sessions to provide sufficient funding.

At the end of the FY 2008 fire season, the department was unable to utilize these "unfunded" tactics to pay the fire bill due primarily to the magnitude of the bill in relation to the department's budget. The Governor called a special session for the legislature to appropriate $39.0 million to the department and an additional $3.0 million to the Department of Military Affairs.

While in special session, the legislature established a fire suppression fund for FY 2009 only by transferring $40.0 million general fund to the fund and created a Fire Suppression Interim Committee, charged with the following:

- An investigation of firefighting operations in Montana, including operations on tribal land and private land, by the state and federal governments and the management policies affecting the success of those operations
- An investigation of the efficient use of fire suppression resources including equipment and firefighters
- An investigation of impacts of operations on private land and on the effective use of private resources to fight fires
- An investigation of state and federal forest management police and how those policies may contribute to an increased number of wildfires, greater safety risk to firefighters, or compromised effectiveness of fire suppression efforts

The interim committee was essentially tasked to deal with the changing realities of fire suppression such as increased costs, decreased FEMA assistance, fire locations, and changing relationships with federal partners.

FIRE SUPPRESSION FUNDING

The state cost of fire suppression is on the rise due to increased fuel costs, federal land management decisions, wildland urban interface development, and decreased federal assistance. The interim committee examined these issues to determine funding options for legislative consideration. Two options resulted in committee legislation. They are:

- Provide for an on going fund transfer to the fire suppression account; remove the termination date for the fire suppression account; and allow a certain amount in the account to be used for additional county co-op equipment, fuels mitigation, and rural fire assistance matching grants (LC 503)
- Increase the Governor's emergency fund and provide that the increase only be used for wildland fire (LC 504)

The committee also discussed relying on the supplemental appropriation process and developing a specific funding formula. Neither of those ideas resulted in committee legislation. For additional information on the Fire Suppression Interim Committee activities, see Legislative Budget Analysis, Volume 5, page C-244 for Agency Issues within the Department of Natural Resources and Conservation.

LONG-TERM STABILITY OF THE GENERAL FUND

INTRODUCTION

The state general fund is the primary account that funds a significant portion of the general operations of state government. Since this fund is critical to the operations of state government, the long-term stability of this account is an issue that must be examined for development of sound fiscal policies. This section discusses three key issues relevant to the 2009 legislative session and the necessary planning for subsequent sessions. The issues addressed are: 1) revenue stability; 2) reliance on federal funds; and 3) funding demands.

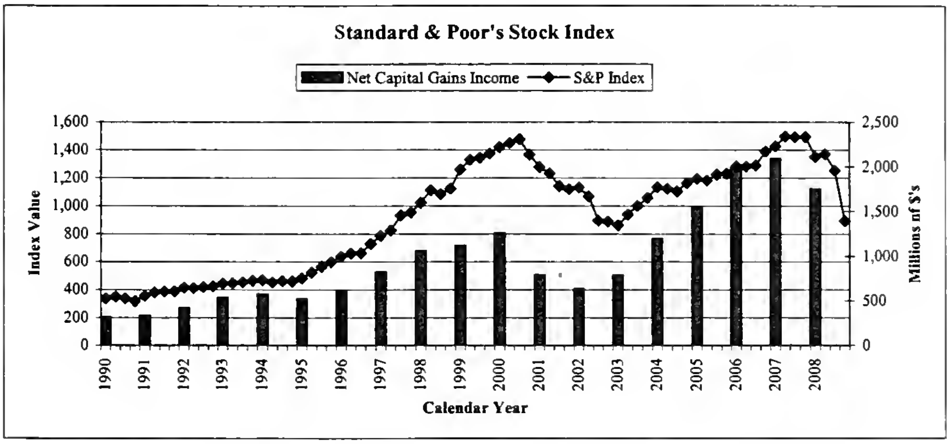
REVENUE STABILITY

There are three major components of general fund revenues that have contributed to increased revenue collections in recent years: capital gains income, oil and gas price and production, and corporate profitability. Reliance on capital gains upswings is the "poster child" of over-reliance on sustained growth, and expanding government services based on unsound fiscal policy.

CAPITAL GAINS

The 1990's were generally good years for Montana's economy. With a few exceptions, Montana experienced above average employment and wage levels that translated into strong tax revenue growth. This revenue growth was further enhanced by the significant increase in the equity markets and the resulting growth in capital gains income. During calendar 2002 and 2003, however, the state's financial picture blurred as the effects of a national economic recession, terrorism threats, and mid-east tensions played havoc on the US economy. Although Montana's economic base remained relatively stable during this period, state general fund revenues plummeted. This inconsistency was due to the precipitous fall in equity markets, low interest rates, and reduced corporate profits. All of these factors contributed to the 2002/2003 budget crisis while the state's economy continued to outperform the national economy.

Figure 5



As Montana moves forward into the next century, there are valuable lessons that can be extracted from the financial experiences of the 1990's. For example, as the information technology age was exploding during the nineties, the equity markets were experiencing phenomenal growth rates. As shown in Figure 5, the S&P stock index reached a high of almost 1,500 in calendar 2000 and then declined abruptly until 2003 when the index dropped to about 850. Figure 5 also shows the corresponding trend in net capital gains realizations as reported on Montana's tax returns. As the figure shows, the trends in reported net capital gains income is highly correlated to the S&P index. This would indicate that state tax revenues experienced significant growth from the mid to late nineties due to the information technology investment euphoria. In the meantime, while this growth scenario was occurring, state general fund expenditures were increased along with passage of significant tax relief measures. The actions of the legislature, in essence, expanded the expenditure base and reduced the tax base based on the assumption that strong revenue growth would continue indefinitely. Obviously, the budget crisis of 2002/2003 refuted this supposition. For the calendar period 2005 - 2008, an ominously similar pattern has developed, clearly shown in Figure 5. Reliance on continued levels of capital gains income could lead to another fiscal crisis. A careful assessment of the long-term stability of these levels of income is warranted.

Oil and Gas Production

Again for the calendar period 2005-2008 , a similar situation has developed in the oil and gas production component of state revenues. Montana's oil and natural gas revenues have increased significantly when compared to previous biennia. The issue is whether these increased revenues are "on-going" or are a short-term "blip" (similar to net capital gains income) that may fade in the future.

Figure 6

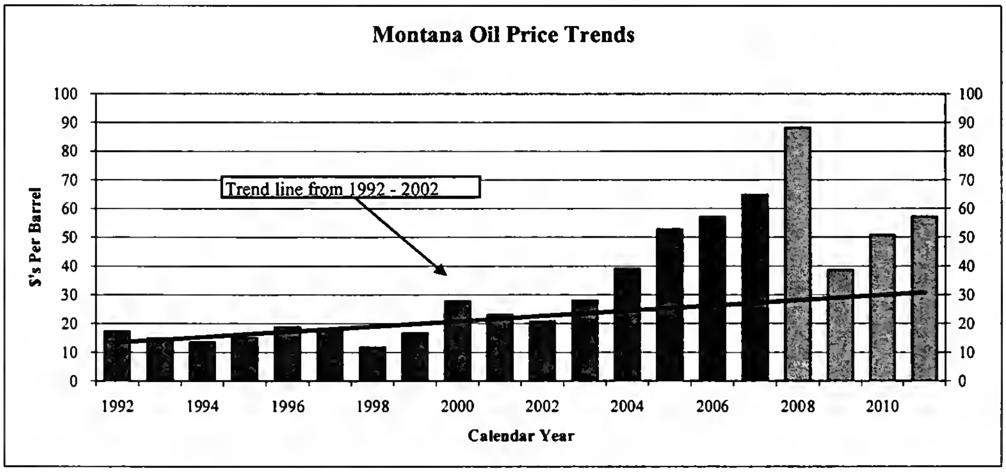
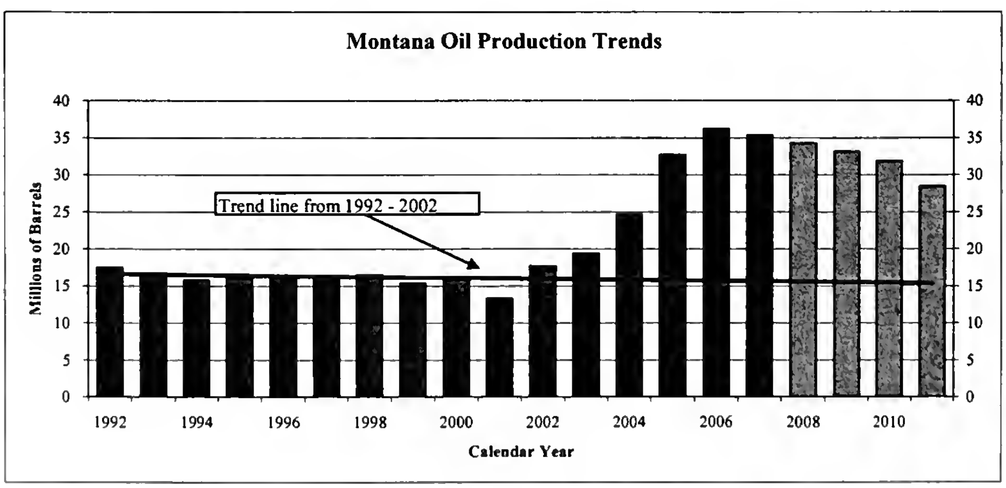


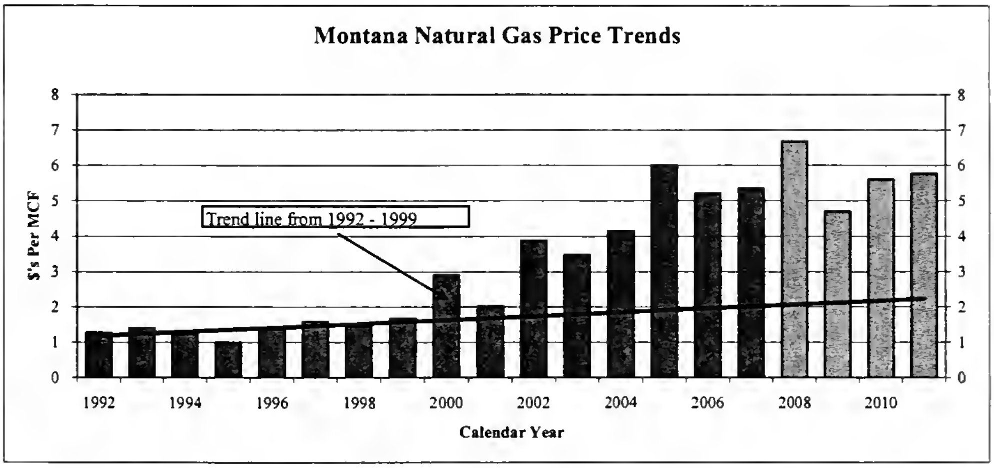
Figure 7



Figures 6, 7, 8 and 9 show the trends in Montana's price and production for oil and natural gas. The data shown for calendar 1992 through 2007 are actual information extracted from the Department of Revenue's computer system. The estimates shown

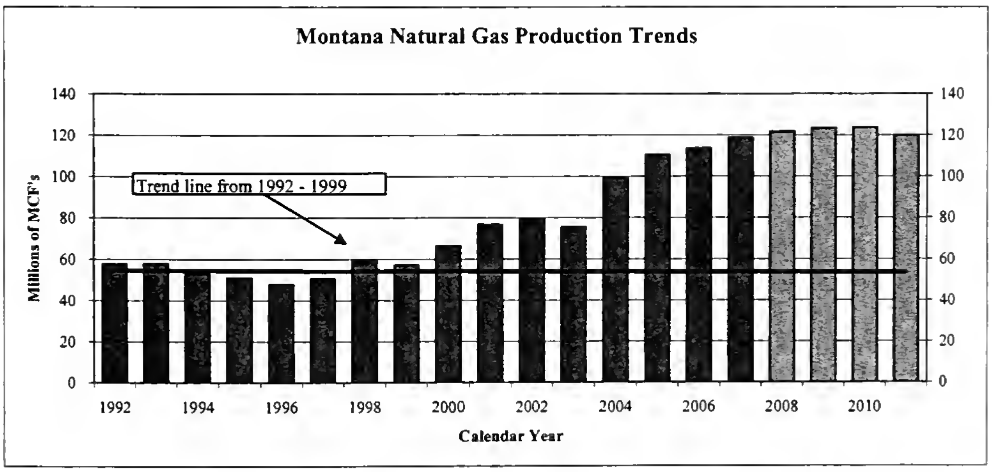
for the calendar period 2008 through 2011 are based on assumptions prepared by the Legislative Fiscal Division (LFD). In addition to the actual and estimated amounts, the figures also show a trend line based on the calendar years indicated in the annotations. These trends are based on a common statistical technique that minimizes the differences between the trend estimate and the actual amount. The trend lines are extrapolated into the future to indicate what the "trend" would be under a status quo situation.

Figure 8



As shown in the figures, both oil and natural gas prices have increased dramatically through calendar 2008. The increase in oil prices is primarily in response to strong world demand and limited supplies.

Figure 9



Based on December 2008 forecasts by IHS Global Insight, the LFD has revised its recommended assumptions for both oil and natural gas prices. As shown in the figures,

it is quite apparent that the price assumptions recommended by LFD are expected to peak in calendar 2008 and then drop off dramatically in calendar 2009. Prices are expected to rebound to some degree beginning in calendar 2010.

It is clear from the price and production data shown in the figures that oil and gas tax revenues for calendar 2005 -2008 have been considerably higher than the trend line would have produced. If the LFD recommended price assumptions are correct, state revenues will fall significantly during the next biennium as compared to the current biennium. The issue then becomes what will be the level of "on-going" revenue from oil and gas productions taxes. The legislature should be visionary in the budgeting process and adopt reasonable oil and gas price assumptions that will not create a boom or bust cycle into the future.

Corporate Income

Corporate income taxes have traditionally been an extremely volatile source of revenue, directly tied to the national and world economic conditions and its erratic fluctuation. While corporate taxes are currently strong, this tax source is expected to drop off significantly during the 2011 biennium. Again, it is prudent to assess the long-term trend of this source and how sustainable these revenues will be into the future. A significant portion of current corporate income taxes is being "fueled" by the natural resource industry. Lower commodity prices, however, are expected to reduce corporate profitability and the associated corporation tax payments. This is just one more example of a revenue source that can be quite volatile which makes the long-term stability of general fund revenues questionable.

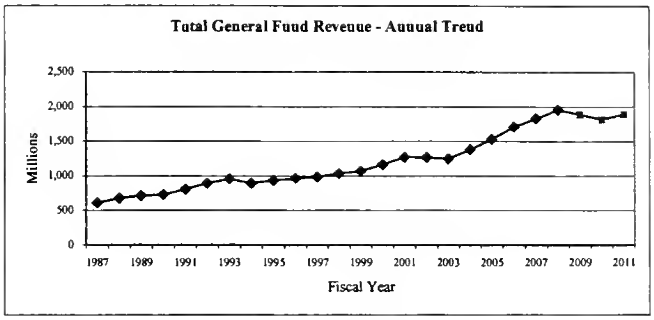
Revenue Stability-Summary

As shown in Figure 10, total general fund revenues have increased substantially during the period fiscal 2004 through 2008 and are projected to decrease during FY 2009 and 2010. Anticipated revenues are expected to begin a recovery starting in FY 2011

Figure 10

General Fund Revenue Trends
Historical Collections and LFD Estimates

	Fiscal Year	General Fund Collections Millions	Year to Year Change Millions	GF Percent Change
A	1987	609.742		
A	1988	676.718	66.976	10.98%
A	1989	711.968	35.250	5.21%
A	1990	730.351	18.383	2.58%
A	1991	805.288	74.937	10.26%
A	1992	892.727	87.439	10.86%
A	1993	953.063	60.336	6.76%
A	1994	891.859	(61.204)	-6.42%
A	1995	935.348	43.489	4.88%
A	1996	963.193	27.845	2.98%
A	1997	986.570	23.377	2.43%
A	1998	1,034.382	47.812	4.85%
A	1999	1,069.982	35.600	3.44%
A	2000	1,163.638	93.656	8.75%
A	2001	1,269.472	105.834	9.10%
A	2002	1,265.713	(3.759)	-0.30%
A	2003	1,246.381	(19.332)	-1.53%
A	2004	1,381.565	135.184	10.85%
A	2005	1,530.949	149.384	10.81%
A	2006	1,708.166	177.217	11.58%
A	2007	1,829.872	121.706	7.12%
A	2008	1,953.540	123.668	6.76%
F	2009	1,885.741	(67.799)	-3.47%
F	2010	1,816.452	(69.289)	-3.67%
F	2011	1,893.490	77.038	4.24%



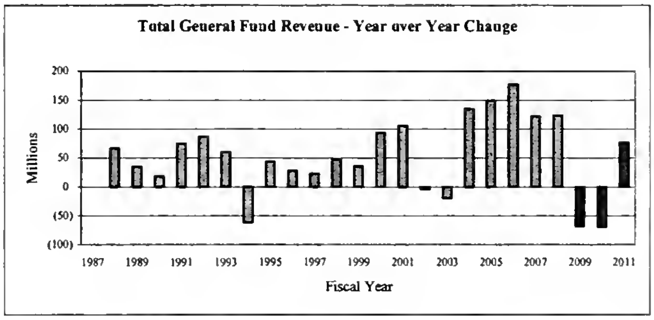


Figure 10 also shows the change in revenue collections from year to year. The disturbing trend is the downturn in revenue collections observed at seven to eight year intervals. As shown in the figure, this downturn is expected to occur in FY 2009 and 2010, earlier than the seven to eight year cycle observed historically

The downturn in revenues during FY 2002/2003 illustrates the sensitivity of Montana's revenue stream to world events and investment opportunities. It also underscores the potential inaccuracies in the revenue estimates if the occurrences of these types of events are not known or are mistimed. Economic upturns or downturns are rarely accurately projected nor can disasters or certain world developments be anticipated. To quantify current collection patterns, the increased revenue collection from fiscal 2004 to 2008 was primarily due to three general fund revenue sources: individual income, corporation income, and oil and gas production taxes. Together, these three sources of revenue contributed about $707 million of the total increase, which represents over 80 percent of the total. The various assumptions used to estimate these revenue sources will have a substantial impact on total estimated general fund revenues in the future. If only a few of the key assumptions miss the mark, estimates may vary widely from actual collections.

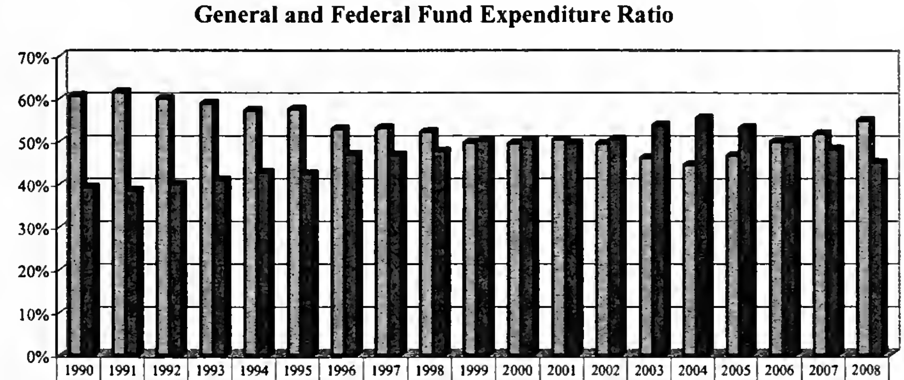
RELIANCE ON FEDERAL FUNDS

General fund expenditures have increased on average about 6.3 percent per year from fiscal 1990 to 2008. Correspondingly, federal funds expended have increased about 7.7 percent per year during this same period. In both funds, however, there have been some budgetary changes that skew these percentages. For example, HB124 (local government entitlement legislation), diverted some local government revenues to the state treasury in return for a state general fund entitlement appropriation to local governments. This change increased general fund revenues by approximately the same amount of increased general fund expenditures. During the 2003 biennium, the state food stamp program was included in the budgeting process. Prior to this time, this program was considered "off budget" and was not included as a federal fund expenditure.

Regardless of these changes, the fact remains that federal funds were a larger portion of the total state budget until FY 2006. Beginning in FY 2007, this trend was reversed wherein general fund was once again a larger portion of the total state budget.

As shown in Figure 11, general fund expenditures represented over 60 percent of the combined general and federal fund expenditures in FY 1990. By FY 1999, the percentage split was about equal. By FY 2004, however, federal funds represented over 55 percent of the combined spending to about 44 percent from the general fund. Interestingly, the federal funds percentage has dropped to about 45 percent in FY 2008. Total federal funds expended in FY 2008 were $1.700 billion compared to $2.069 billion general fund, for a difference of $369 million. This shift in percentages was due to the unusually high amounts of one-time only disbursements in FY 2008. If Montana was to lose a portion of these federal funds, the impact on the services provided to the citizens would be significantly reduced. To maintain the same level of services would require a substantial change in state tax policy.

Figure 11

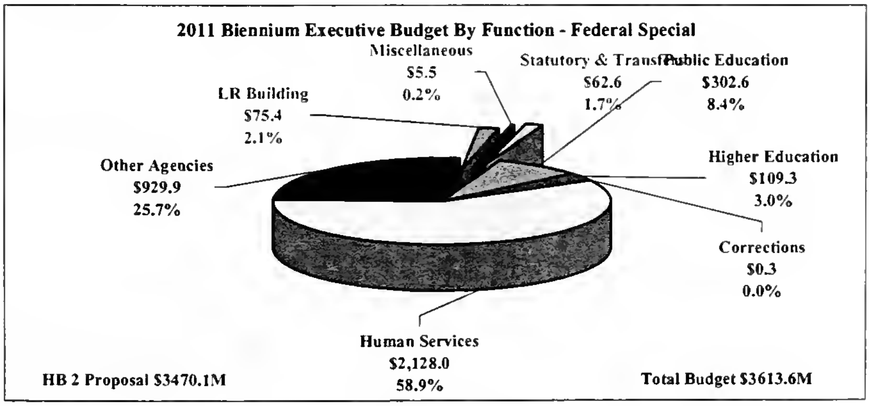


	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund	60.7%	61.5%	60.0%	58.9%	57.3%	57.6%	53.0%	53.2%	52.3%	49.8%	49.6%	50.4%	49.6%	46.2%	44.5%	46.7%	49.9%	51.8%	54.9%
Federal Fund	39.3%	38.5%	40.0%	41.1%	42.7%	42.4%	47.0%	46.8%	47.7%	50.2%	50.4%	49.6%	50.4%	53.8%	55.5%	53.3%	50.1%	48.2%	45.1%

General Fund ■ Federal Fund

Figure 12 shows the 2011 biennium executive budget recommendation for federal special revenue funds. As the figure shows, public health and transportation services consume over 58 percent of the federal funds recommended in the executive budget. A reduction in federal funding would have a significant impact to these state programs.

Figure 12



Reliance on Federal Funds - Summary

With huge federal deficits and the continued Iraq war funding demands, the prospect for federal funding freezes or reductions is a real possibility, not only in the near-term but also in the long-term. The current economic crisis has begun to impact federal revenues and will continue to have substantially impacts well into the future. The 61st

Legislature may want to consider developing a long-range plan in the event of a reduction in federal funds.

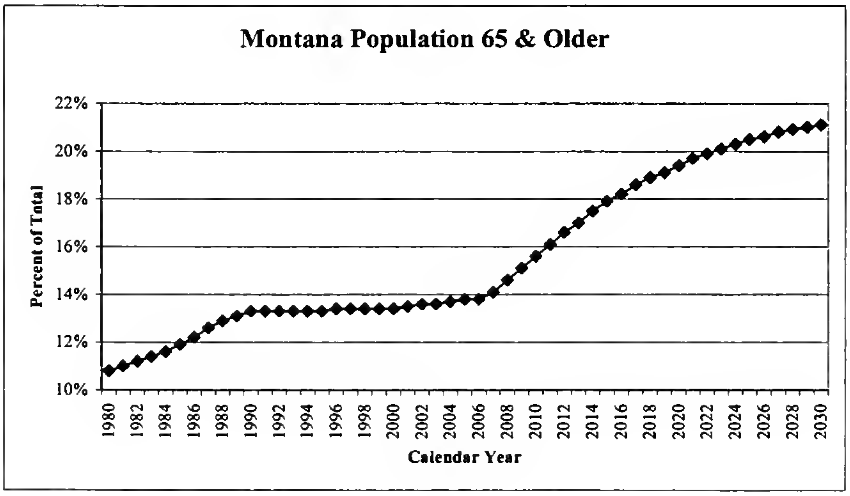
FUNDING DEMANDS

Businesses as well as government constantly experience the changing and competing demands for available dollars. Whether a business is contemplating expansion or technology enhancements, state government experiences the same type of needs and priorities in order to continue services to the citizenry of the state.

Aging Population

One of the most significant events that is beginning to surface in Montana is the projected increase in the aging population. Between 2002 and 2025, Montana's population 65 and older is expected to increase from 13.6 percent of the total population to 22.1 percent, or a change in older residents of almost 100,000. As shown in Figure 13, Montana experienced rapid growth in this age cohort from calendar 1980 to 1990.

Figure 13



Starting in calendar 1991 and through 2002, this trend waned, with the percentage of residents in this age bracket remaining quite constant. From calendar 2002 to 2025 this trend is once again changing, showing a significant percentage of Montana's total population in the 65 and older age range. If these projections are correct, by calendar 2025, one out of every five Montanan's will be at least 65 years old.

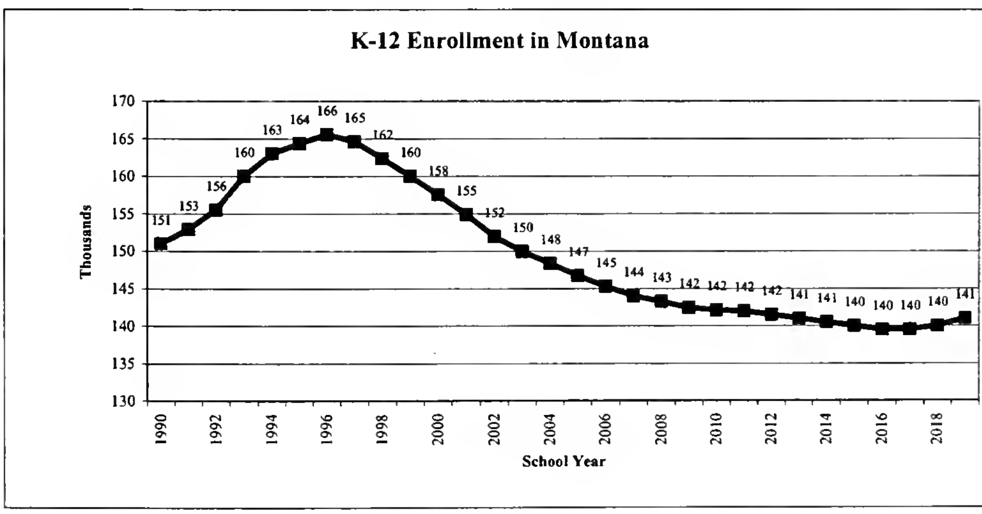
The primary cause of this rising population change is the maturing of the baby-boomer generation, born between 1946 and 1965. Montana, like other state and local governments, will need to address the issues relative to changing demographics. As Montana's population ages, issues relative to an economy that will be required to support these changes and the implications for medical and long-term care costs must be addressed.

With a growing elderly population, the legislature will need to address how the working-age population can support a significantly older population. In addition to the associated costs of caring for the elderly, the level of income these individuals have, and ultimately how much they will pay in taxes could have a substantial impact on state government finances. Given the expected dramatic changes in the age structure of our population, it is imperative the legislature begin thinking about these issues and how they may be addressed in the future.

During the 2007-08 interim, the RTIC and the LFC formed a subcommittee to discuss the fiscal implications of an aging population and other demographics on state revenues and expenditures. Their work resulted in a study proposal which is being brought to the legislature via HB 81. This legislation would create an interim committee to conduct a study of the potential long-term effects of demographic, economic, social, and other trends in Montana. State and local governmental programs and services, and state and local revenue systems would be studied.

School Enrollment

Figure 14



In addition to our aging population, Montana has experienced a significant change in enrollment in our elementary and secondary public schools. As shown in Figure 14, Montana's total enrollment was in excess of 165,000 children in school year 1996. From this time forward, total enrollment is expected to decline to about 140,000 students by school year 2015. Beyond 2015, enrollment is estimated to increase, but at a fairly moderate rate. The significance of this change is the costs associated with funding our current public school system. Under current law, state expenditures for public schools are primarily driven by the enrollment in each district. If enrollment declines, then the cost to fund education correspondingly declines. See page xxx for a discussion on the current public school funding lawsuit.

If the current public school funding formula continues to be enrollment driven, the cost of funding the public school system will begin to accelerate when the current enrollment trends reverse direction beginning in school year 2015. At an average cost of about $3,900 per enrollee per year, small changes in enrollment can turn into significant funding increases in the future.

Funding Demands - Summary

Changes in population demographics related to an aging population and a reversal of the decline in school enrollments are just two examples of funding demands. The chronic demands for increased human services and corrections funding are well known, and there are other troubling signs that funding demands could exacerbate the long-term stability of the general fund.

CONCLUSIONS

Ensuring that the general fund is structurally balanced, i.e., that on-going revenues meet or exceed on-going expenditures for the next biennium, provides a simplistic short-term assessment of sustainability of the general fund. However, it does not take into consideration the long-term stability of the funds or whether long-term trend assumptions are based on sound fiscal policies. This section discussed three key issues related to long-term stability that may point to tougher times ahead. With regard to revenue stability, individual income taxes, oil and gas production taxes, and corporate income taxes account for 80 percent of revenue growth in the past five completed fiscal years. Further reliance on sustaining these revenues at current levels into the future would ignore ominous signs that warrant careful scrutiny. With regard to federal funds, the executive budget proposes replacing $25.6 million federal funds with general fund due to the changes in FMAP rates. This appears to be the tip of the cutbacks anticipated as the Federal government deals with huge deficits. Regarding funding demands, shifting demographics related to aging population and school enrollment, as well as challenging chronic growth patterns with corrections and human services, signal yet another reason for concern with long range stability of the general fund. Collectively, these sample issues bring into question the sustainability of an executive budget proposal that, while "structurally balanced" from a simplistic short-term perspective, may lead to budget shortfalls in the not-too-distant future.

LFD ISSUE

While revenue estimates and spending proposals in the executive budget may be based on the best information available, particularly with regard to future sustainability, if only a few key assumptions miss the mark, it could lead to budget shortfalls in the long-term. The legislature should carefully consider the issues surrounding the sustainability of the proposed executive budget, and determine the level of risk that is acceptable in consideration of the vulnerability of any economic forecasting assumptions. For the longer-term, an in-depth analysis of the long-term stability of the general fund would require a fairly extensive analysis, but may be prudent given the serious impacts of over-extending based on erroneous assumptions.

The legislature should carefully consider the interim study bill (HB 81) that will study the long-term stability of the general fund. Much could be learned from examining the fiscal policies on which the current general fund structure is based.

Based on this outlook, it could be argued that a significant amount of additional revenue received during the last five years that is currently classified as "on-going" could be considered "one-time" and may not be available in subsequent biennia. If this hypothesis is correct, the 61st Legislature should consider creating a "rainy day fund" and transferring a portion of the potential one-time revenue into this fund. On November 18, 2008, the Legislative Finance Committee approved draft legislation that would create a "budget stabilization account", a term synonymous with "rainy day fund". Given the tenuous nature of some assumptions regarding the long-term sustainability of general fund, a rainy-day fund would provide a cushion to get through the down-side of economic cycles.

FUND BALANCE ADEQUACY/RESERVES

Attaining general fund budget stability means more than setting appropriations equal to anticipated revenues, with a positive ending fund balance serving as a safety net. The adequacy of the state general fund balance can signify the difference between whether or not the state is forced to confront the unpleasant consequences of fiscal instability. The legislature needs to be aware of the tenuous nature of the projections and keep in mind the need to maintain an adequate reserve.

BACKGROUND

Montanans are all too familiar with the consequences of general fund balance inadequacy. In the late 1980's and early 1990's, the state general fund experienced a chronic deficit between revenues and disbursements. Much of the growth in the disbursement rate is a result of natural growth in expenditures due to inflation and/or caseload and enrollment increases, as well as supplemental spending for such contingencies as fire suppression. Revenue growth in the state has not always kept pace with expenditure growth. During the 2003 biennium, actual revenue growth was well below forecasts, primarily because of reduced income tax collection and lower interest rates, largely due to circumstances that could not be predicted when the 2003 biennium budget was being approved. The legislature adjourned from the 2001 regular session with a projected 2003 biennium general fund ending balance of $54 million (2.3 percent of biennial appropriations). By the end of the first fiscal year, revenue collections for the biennium were $153 million below legislative estimates. Even after the Governor directed statutory spending reductions of $23 million, a special session was necessary to achieve an acceptable ending fund balance reserve through an additional $59 million in budget balancing actions. Revenues still remained unstable as the Fifty-eighth Legislature imposed additional reductions as it shaped the 2005 biennium budget, ending the session with a projected fund balance of $46.2 million or 1.7 percent. As the economy bounced back in the 2005 and 2007 biennia, Montana witnessed extraordinary revenue growth, with a record fund balance approaching $1 billion projected through the 2009 biennium. The Governor's proposed budget for the 2009 biennium coupled with the 2007 Legislature's actions through appropriation and tax relief measures, resulted in a projected 2009 biennium ending fund balance of $184 million. A 2007 special session to address wildfire costs reduced that amount to $125 million.

ADDRESSING FUND BALANCE ADEQUACY

Recognizing that budgetary imbalances and revenue swings can occur, the state can either take a reactive or a proactive approach. During the 1993, 1995, 2003 and 2009 biennia, the state held special legislative sessions to deal with budget shortfalls. Although special sessions allow lawmakers the ability to address issues relative to revenues and expenditures, special sessions can cost the taxpayers more than $50,000 per day. The need for special sessions is also closely scrutinized by the national agencies that rate the state's debt. Rating agencies also use a state's general fund balance as a percent of revenues as a key financial indicator for credit analysis.

Again from a reactive stance, budgetary fluctuation can be temporarily resolved through spending reductions. In accordance with 17-7-140, MCA, the Governor can authorize spending reductions: "...in an amount that ensures that the projected ending general fund balance for the biennium will be at least 1 percent of all general fund appropriations during the biennium." Essentially, the executive branch assumes control of the budget decision-making process by implementing and prioritizing spending reductions. Further, budgetary imbalances can be addressed only from one side of the equation -- expenditures. This means that legislative priorities could potentially get lost in the process.

Because of the cost and disadvantages of taking a reactive approach to budget imbalances, a more effective method may be to approach these issues proactively through provision of adequate fund balance reserves. National fiscal experts such as the National Conference of State Legislatures (NCSL) recommend a reserve fund balance of 3 to 5 percent of total appropriations or revenues. Because Montana's budget is implemented on a biennial basis -- resulting in considerably more risk than an annual budgeting process -- the 3 to 5 percent should be applied to biennial totals. For Montana, with projected total general fund revenues of $3.7 billion, a minimum 3 percent reserve equates to a $111.0 million ending fund balance. The revenue volatility of recent years might suggest that an even higher reserve would be more prudent.

The provision of an adequate general fund balance is essential to achieving a sound financial foundation. The level of fund balance reserves must be sufficient to offset the volatility of revenues and the potential for unforeseen expenditure increases, both of which are prevalent in recent years and in current budget proposals. It is even more important since Montana is one of only three states that do not have a rainy day fund provision (although the legislature is expected to consider one or more "rainy day fund" bills this session). To this end, the legislature will again need to determine what amount of ending fund balance is sufficient to ensure budget stability.

EXECUTIVE RECOMMENDATION

The executive budget balance sheet as revised on December 15 shows an ending fund balance of approximately $295.5 million. The original executive budget recommends a fund balance of no less than $250 million, or about 6.7 percent of the executive's biennium revenue forecast, plus the executive budget includes nearly $33 million for the wildfire suppression account (the executive proposes removing the sunset provision on that account).

LFD COMMENT

The legislature may want to consider establishing a rainy day fund for what might be considered the excess fund balance reserve. The projected fund balance does not represent ongoing revenue and spending it down, if estimated revenues fall off further, would result in a deepening structural imbalance in the budget. In that event, the legislature may want input in how those funds are spent.

HIGHWAY STATE SPECIAL REVENUE DECLINE IN WORKING CAPITAL BALANCE

The state special revenue account that supports most state funding for operations and maintenance of Montana's highway infrastructure is in a perilous financial situation with key revenues declining and costs rising. Key revenue sources that fund more than 70 percent of state costs are from motor fuel taxes. Declining economic conditions, changing driving behaviors, and fuel economy efforts are causing motor fuel revenues to decline while inflationary pressures are causing highway infrastructure costs to rise. By the end of the 2011 biennium declining revenues and rising costs could result in an estimated deficit of $17.0 million for this key state funding source, the highways state special revenue account, to support operations and maintenance of Montana's highways under current expenditure projections.

A further discussion of this account and all related issues is included in Volume 5 of the LFD 2011 Biennium Budget Analysis, page C-126.

PENSION PLANS UNFUNDED LIABILITY

Does the legislature need to take action in the 2009 session?

One of the key fiscal issues in front of the legislature over the past few biennia has been the unfunded actuarial liability (UAL) of the state pension plans. In two different sessions (the December 2005 special session and the 2007 special session) the legislature approved cash contributions totaling $175 million to reduce unfunded liabilities and shore up plan assets that had been impacted by reduced equity market values and a downturn in investment earning generally. In FY 2007, the equity markets regained value and at the end of June 2007, all of the pension plans were actuarially sound as defined in state statute. At the end of FY 2008, and after the equity markets dropped in value in the last month of the year, all but one of the plans still met the criteria of being actuarially sound. Only the Teachers' Retirement System was determined to be actuarial unsound.

BACKGROUND

Article VIII of the State Constitution states that "public retirement systems shall be funded on an actuarially sound basis. State law defines actuarial soundness by stating that the "unfunded liability contribution rate...must be calculated as the level percentage of current and future defined benefit plan members' salaries that will amortize the unfunded actuarial liabilities of the retirement plan over a reasonable period of time, not to exceed 30 years, as determined by the board." In other words, the contribution rate for a particular plan must exceed the level needed to cover the normal costs of benefits and administration for the retirees and be sufficient, when amortized, to cover the unfunded liability within 30 years.

MOST RECENT ACTUARIAL VALUATIONS

An actuarial valuation, by statute, is required annually for each plan. The valuations are prepared after the end of the fiscal year and are available to the respective retirement boards around the end of September of each year. Figure 1 summarizes key points of actuarial valuations for the year ending 6/30/2008, and provides a comparison to the previous two valuations (2006 and 2007). The four plans that are highlighted are those pension plans that were the focus of attention over the past few session as they were considered "actuarially unsound."

The key item to focus on in the FY 2008 data is the "Years to Amortize Unfunded Liability" which is highlighted. This is an important indicator because the definition of "actuarial soundness" is tied to the pension plan ability to pay down its unfunded liability within a 30 year period. As the figure shows, the Teachers' Retirement System is the only plan that exceeds the 30 year amortization, partly due to the reduced investment earnings and partly due to a change in actuarial assumptions approved by its board.

Figure 1

Pension Plan Unfunded Actuarial Liability
2008 Actuarial Valuation versus 2006 & 2007 Actuarial Valuations
(Dollars in Millions)

	TRS	PERS-DB	SRS	GWPORS	HPORS	MPORS	FURS	JRS	VFCA
2006 Valuation (as of 6/30/2006)									
Actuarial Liability	$3,608.9	$3,919.3	$171.8	$64.2	$112.0	$291.1	$255.5	$37.2	$31.9
Assets	2,745.8	3,459.1	163.0	58.8	87.2	175.9	167.3	51.8	23.2
Unfunded Liability (Surplus)	$863.1	$460.2	$8.8	$5.4	$24.8	$115.2	$88.2	($14.6)	$8.7
Funded Ratio	76.1%	88.3%	94.9%	91.6%	77.9%	60.4%	65.5%	139.2%	72.7%
Years to Amortize Unfunded Liability	**Does not amortize**	**Does not amortize**	**Does not amortize**	**32.4 yrs**	**18 yrs**	**21.4 yrs**	**15.5 yrs**	**n/a**	**9.6 yrs**
2007 Valuation (as of 6/30/2007)									
Actuarial Liability	$3,775.1	$4,201.2	$189.0	$73.0	$128.3	$310.4	$269.4	$36.9	$31.6
Assets	3,006.2	3,825.2	183.9	68.8	95.8	198.3	188.5	57.8	25.9
Unfunded Liability (Surplus)	$768.9	$376.0	$5.1	$4.2	$32.5	$112.1	$80.9	($20.9)	$5.7
Funded Ratio	79.6%	91.1%	97.3%	94.2%	74.7%	63.9%	70.0%	156.6%	82.0%
Years to Amortize Unfunded Liability [(b)]	**28.6 yrs**	**21.9 yrs**	**19.6 yrs**	**11.3 yrs**	**19.1 yrs**	**20.5 yrs**	**12.9 yrs**	**n/a**	**5.1 yrs**
Total Contribution Rate	16.730%	13.895%	19.070%	19.560%	45.380%	52.780%	57.660%	32.810%	[(a)]
Normal Cost Rate	10.400%	12.220%	19.460%	18.670%	22.310%	26.450%	26.050%	25.190%	
Available for Amortization	6.330%	1.675%	-0.390%	0.890%	23.070%	26.330%	31.610%	7.620%	
Avail. For Amort. FY 2010 [(b)]	6.710%	1.810%	-0.100%						
2008 Valuation (as of 6/30/2008)									
Actuarial Liability	$3,953.7	$4,504.7	$204.5	$83.4	$134.7	$327.5	$287.2	$39.4	$32.7
Assets	3,159.1	4,065.3	199.4	77.5	101.5	212.3	206.1	62.0	27.5
Unfunded Liability (Surplus)	$794.6	$439.4	$5.1	$5.9	$33.2	$115.2	$81.1	($22.6)	$5.2
Funded Ratio	79.9%	90.2%	97.5%	92.9%	75.4%	64.8%	71.8%	157.4%	84.1%
Years to Amortize Unfunded Liability [(b)]	**31.3 yrs**	**24.8 yrs**	**16.3 yrs**	**13.0 yrs**	**17.4 yrs**	**18.6 yrs**	**11.3 yrs**	**n/a**	**5.0 yrs**
Net Statutory Funding Rate	16.730%	13.895%	19.070%	19.560%	45.380%	52.780%	57.660%	32.810%	[(a)]
Normal Cost Rate	10.870%	12.130%	19.240%	18.540%	22.250%	26.650%	26.150%	25.120%	
Available for Amortization	5.860%	1.765%	-0.170%	1.020%	23.130%	26.130%	31.510%	7.690%	
Avail. For Amort. FY 2010 [(b)]	6.240%	1.900%	0.120%						

Notes [(a)] Contibutions are not expressed as a percent of wages but rather are a portion of the fire insurance premiums collected by the state.

[(b)] Contributions by employer increase 0.38% for TRS, 0.135% for PERS and 0.29% for SRS on July 1, 2009, resulting in an increased amount available for amortization. The number of years shown to amortize the unfunded liability takes these increases in employer contribution into account.

Key
- TRS - Teachers' Retirement System
- PERS - Public Employees' Retirement System
- SRS - Sheriffs' Retirement System
- GWPORS - Game Wardens and Peace Officers' Retirement System
- HPORS - Highway Patrol Officers' Retirement System
- MPORS - Municipal Police Officers' Retirement System
- FURS - Firefighters' Unified Reirement System
- JRS - Judges' Retirement System
- VFCA - Volunteer Firefighters' Compensation Act

There are two points that need to be noted. First is that although this data does not look as bad as one might expect given the recent economic events, the valuation process applies a technique called "smoothing" that spreads gains and losses out over a period of time. Therefore, losses that occurred in FY 2008 are not totally realized in this

current valuation, but rather are spread out over a four year period. Second, the current valuation does not take into account the impact of economic events since June 30, 2008, where retirement investments have seen some extraordinary volatility.

The next scheduled valuations will occur after June 30, 2009 and will not be available until around October 1. How the equity markets and other investments perform before the end of FY 2009 is unknown, but it is how they perform that will determine the soundness or unsoundness of the retirement plans in the next valuation, assuming that the actuarial assumptions remain relatively unchanged.

TOTAL UNFUNDED LIABILITY

The net unfunded liability of the nine defined benefits pension plans as of June 30, 2008 is $1.457 billion. A rough calculation of the change since June 30 suggests that the unfunded actuarial liability may have doubled since that time. The collective funded ratio, which was about 85 percent, could be in the neighborhood of 68 percent. The changes are dramatic but do not consider the actuarial assumptions of "smoothing" which refers the practice of spreading of gains and losses over a four year period. Still, there was an unsettling drop in asset value in just a couple of months time.

IS LEGISLATIVE ACTION NEEDED?

By definition and based upon the most recent actuarial valuation, all but one of the pension plans is actuarial sound. In addition, the actuarial soundness of these plans are based upon assumptions that measure the long-term trends of various factors, with investment returns certainly being a key one. When the legislature convenes in January, there will still be six months remaining in FY 2009 and the session will end prior to the availability of the 2009 valuation. The Teachers' Retirement System (TRS) is preparing a projection of what the funded status of TRS might look like using a range of different asset returns, with a report expected in mid- to late January. The Public Employees Retirement System (PERS) is considering similar scenarios. This information might give the legislature some idea of whether or not there is a compelling reason for the legislature to take any action in the 2009 session.

Historic economic cycles and the logic of actuarial valuations would suggest that time will resolve the pension plan unfunded liabilities to the degree needed for actuarial soundness. Even the retirement boards have a policy that provides that after two consecutive "negative" valuation reports, the boards are obligated to pursue legislative remedies (TRS has had one with the most recent report and PERS has had none so far). The question then becomes: How long might a recovery take? The answer to that question will not likely be evident in the near future.

Further, the contributions to the pension plans are sufficient to cover the normal costs of the plans, that being the actuarial cost to fund the benefits provided by the system and administration were the funding to begin at date of hire. What will not be known until the next actuarial valuation is the degree to which investment losses have increased the unfunded actuarial liabilities, and the cost to amortize those unfunded actuarial liabilities within the 30-year threshold.

Appendix

APPENDIX A

GOVERNOR'S BUDGET REVISIONS

On December 15, the executive submitted amendments to the original executive budget as allowed under 17-7-112 (9), MCA. It is not unusual for the Governor to make adjustments to the budget at this time, however, it is unusual for the Governor to be in the position of making so many changes and for such a significant total amount. The changes discussed were precipitated by a revised outlook for state revenues projected by both the Governor's budget office and the Legislative Fiscal Division after the official revenue estimates were adopted by the Revenue and Transportation Interim Committee. A comparison of the Governor's fund balance analysis for the December 15 and November 15 budget submissions shows a reduction in general funds available for FY 2009 through FY 2011 of $114.7 million.

On the disbursement side, the Governor's revision for expenditures from the general fund are:

- HB 2 net reductions of $82.1 million
- Statutory appropriations net reductions of $2.3 million
- Long-Range Planning reductions of $47.9 million
- Transfers increases $760,000
- The legislature's "feed bill" suggested reduction of $270,000

The HB 2 reductions include a proposed increase in applied vacancy savings of 7 percent instead of the original 4 percent, and applied a 2 percent vacancy savings to the Judicial Branch, which was not subject to the vacancy savings in the original budget submission. The increased applied vacancy savings results in a general fund decrease of $16.4 million, which might easily be characterized as an across-the-board cut, while the other HB 2 changes address specific program areas.

Non-general fund sources were impacted by the budget revision as well. Decision package changes in the revised budget combine to a net decrease in other funds expenditures of $62.5 million. The fund sources include state special revenue funds, federal funds, proprietary funds, and current unrestricted funds. The previously mentioned vacancy savings change reduces the other funds budget by $30.7 million, nearly half of the proposed decrease.

Figure 1 provides a detailed list of the decision package revisions that comprise the HB 2, statutory appropriations, and non-HB 2 proprietary fund changes in the Governor's revised budget submission. This list identifies the changes for each department by showing the decision package name but does not provide any detail beyond the dollar amount for each year of the 2011 biennium. Legislative Fiscal Division staff has prepared its *Legislative Budget Analysis* based upon the original November 15 budget submission, except for Long-Range Planning – Section F in Volume 7. Staff will develop an addendum for each agency budget for use in the joint appropriations subcommittees that will provide the needed detail as a cross-walk to the

revised submission. See Section F in Volume 7 for details of the revised Long-Range Planning budget.

Figure 1

2011 Biennium Executive Budget Revisions
Adjustments Received December 15, 2008 - Per 17-7-112(9), MCA

Agency	Fund	Decision Package	FY 2010	FY 2011
House Bill 2				
Legislative Branch	GF	NP0004 Reserve Funds for Obsolete Systems - OTO	($5,000,000)	$0
Judicial Branch	GF	NP8101 Apply 2% Vacancy Savings Rate to Court	(400,750.00)	(406,636.00)
Judicial Branch	SSR	NP8101 Apply 2% Vacancy Savings Rate to Court	(26,816.00)	(26,920.00)
State Auditor	SSR	NP0316 Ins - Rates Actuary Analyst FTE	84,400.00	81,713.00
State Auditor	SSR	PL0103 CSD New Office Space	26,638.00	45,029.00
State Auditor	SSR	PL0311 Ins - New Office Space	141,694.00	243,739.00
State Auditor	SSR	PL0404 Securities New Office Space	33,757.00	57,666.00
Office of Public Instruction	GF	NP0003 School Foods Equip/Facility Mini Grants-Bien/OTO	(150,000.00)	0.00
Office of Public Instruction	GF	NP0021 21st Century E-learning - MT Virtual High School	(450,000.00)	(1,000,000.00)
Office of Public Instruction	GF	NP0025 Educator Licensure - Legal Work	0.00	0.00
Office of Public Instruction	GF	NP0026 Student Assessment	(325,000.00)	(325,000.00)
Office of Public Instruction	GF	NP0028 Quality Educator Payment	(1,300,000.00)	(2,600,000.00)
Office of Public Instruction	GF	NP0099 Quality Schools Resource Sharing	(100,000.00)	(100,000.00)
Office of Public Instruction	GF	NP0101 Quality School Facility Program	(4,078,000.00)	(4,627,000.00)
Office of Public Instruction	GF	PL0011 School Facilities Reimbursement	(250,000.00)	(250,000.00)
Office of Public Instruction	GF	PL0100 Guarantee Account Adjustment	0.00	501,000.00
Office of Public Instruction	GF	PL0201 K-12 BASE Aid - Present Law ANB Adjust	401,429.00	821,983.00
Crime Control Division	GF	PL0104 Consolidate Agency Operating Costs	0.00	0.00
Justice	GF	PL1805 Vehicle Replacement Program	(60,000.00)	(60,000.00)
Justice	GF	PL3203 Crime Lab Request for Equipment (Bien) - OTO	(47,500.00)	(64,000.00)
Justice	SSR	NP0110 State Special Revenue Funding Switch	0.00	0.00
Justice	SSR	NP0202 Ag Anti-Trust Attorney	102,485.00	97,369.00
Justice	SSR	NP1210 State Special Revenue Funding Switch	0.00	0.00
Justice	SSR	NP1310 State Special Revenue Funding Switch	0.00	0.00
Justice	SSR	NP2810 State Special Revenue Funding Switch	0.00	0.00
Justice	SSR	NP2910 State Special Revenue Funding Switch	0.00	0.00
Comm of Higher Ed	GF	NP0102 Information Resources, Planning, and Communication	(79,939.00)	(79,972.00)
Comm of Higher Ed	GF	NP0405 Reduce State Funding - Community Colleges	(68,609.00)	(134,005.00)
Comm of Higher Ed	GF	NP0802 Fund Deputy Commissioner for 2-Year Education	(50,000.00)	(50,000.00)
Comm of Higher Ed	FF	NP0802 Fund Deputy Commissioner for 2-Year Education	50,000.00	50,000.00
Comm of Higher Ed	GF	NP0920 PBS Restore One-Time Funding to be Ongoing	(200,000.00)	(200,000.00)
Comm of Higher Ed	GF	NP0950 Reduce State Funding - Educational Units	(2,278,514.00)	(3,056,093.00)
Comm of Higher Ed	GF	NP0960 Eliminate increase for Administrative Assessments	(237,342.00)	(309,823.00)
Comm of Higher Ed	GF	NP0970 Remove Present Law Pay Increases	(441,755.00)	(816,039.00)
Comm of Higher Ed	GF	NP1101 Restore One-Time Funding to be Ongoing	(461,400.00)	(461,400.00)
Comm of Higher Ed	GF	PL0930 General Fund Replacement with Six Mill Levy Funds	(1,900,000.00)	300,000.00
Comm of Higher Ed	SSR	PL0930 General Fund Replacement with Six Mill Levy Funds	1,900,000.00	(300,000.00)
Comm of Higher Ed	FF	PL1201 Loan Servicing Costs Increase	(4,716,171.00)	(5,568,273.00)
Comm of Higher Ed	GF	PL9000 Adjusted Base	0.00	0.00
Comm of Higher Ed	GF	PL9017 UM Agencies Combined Decision Packages	0.00	0.00
Comm of Higher Ed	GF	PL9018 Agencies Adjusted Base	0.00	0.00
Comm of Higher Ed	GF	PL9019 Ed Units Combined Decision Packages	0.00	0.00
University Units	CUF	PL0002 Faculty Promotions & Salary Floors	(535,728.00)	(1,067,541.00)
University Units	CUF	PL0003 Faculty Market/Merit Pay	(694,348.00)	(1,376,067.00)
University Units	CUF	PL0005 Contract/Classified Employee Market/Merit Pay	(574,688.00)	(1,122,301.00)
University Units	CUF	PL0008 Administrative Assessment	(51,947.00)	(86,291.00)
University Units	CUF	PL0012 Agencies O&M (Overhead)	(69,334.00)	(87,080.00)
University Units	CUF	PL0014 Fertilizer	(6,972.00)	(16,035.00)
School for Deaf & Blind	GF	NP0001 Early Intervention Services	(45,233.00)	(45,233.00)
Montana Arts Council	GF	NP0001 AISC Residencies	(3,880.00)	(9,429.00)
Montana Arts Council	GF	NP0004 Database and E-Grant - OTO	(20,320.00)	0.00
Montana Arts Council	SSR	NP0004 Database and E-Grant - OTO	(5,000.00)	0.00
Montana Arts Council	FF	NP0004 Database and E-Grant - OTO	(15,000.00)	0.00
Library Commission	GF	NP0007 Training Lab Replacement - Bien/OTO	(25,000.00)	0.00
Library Commission	GF	PL0001 Communications & Marketing Coordinator	(15,425.00)	(16,033.00)
Fish, Wildlife, & Parks	GF	NP0303 State Wildlife Grants, Fisheries - Bien/OTO	(250,000.00)	(250,000.00)
Fish, Wildlife, & Parks	GF	NP0501 State Wildlife Grants, Wildlife Bien (GF-OTO)	(250,000.00)	(250,000.00)

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Figure 1 (continued from previous page)

2011 Biennium Executive Budget Revisions
Adjustments Received December 15, 2008 - Per 17-7-112(9), MCA

Agency	Fund	Decision Package	FY 2010	FY 2011
Environmental Quality	GF	PL5021 Public Water Supply Staff	(430,000)	(420,000)
Environmental Quality	SSR	NP5008 Air Program - Field Office Vehicles	(11,029)	(12,041)
Environmental Quality	FF	NP5008 Air Program - Field Office Vehicles	(5,514)	(6,021)
Transportation	SSR	NP0301 State Special Revenue Funding Switch	0	0
Transportation	SSR	PL4011 Aeronautics Division Cost Reduction	(211)	(250)
Transportation	FF	PL4011 Aeronautics Division Cost Reduction	211	250
Livestock	GF	NP0315 Brucellosis Herd Plan	(13,426)	(13,432)
Livestock	SSR	NP0315 Brucellosis Herd Plan	13,426	13,432
Livestock	GF	NP0409 Brucellosis Herd Plan	(209,724)	(352,637)
Livestock	SSR	NP0409 Brucellosis Herd Plan	209,724	352,637
Natural Resources	GF	NP2306 Montana Rural Water Systems (Bien/OTO)	(101,500)	(101,500)
Revenue	GF	NP80008 Improve Efficiency through Field Computers -OTO	(475,000)	(319,000)
Revenue	SSR	NP7021 Aboadoned Property Program Workload Increase	115,212	103,662
Administration	GF	NP0304 CAFR Software -OTO	(200,000)	0
Administration	GF	NP0617 Provide Support to the Surplus Property Program	(200,000)	(200,000)
Administration	SSR	PL1401 Banking Professional Career Ladder Program	(104,175)	(208,350)
Administration	SSR	PL6110 Additonal MLIA Grants	950,000	950,000
Public Defender	GF	NP0003 Increase in Contract Rates-Restricted	(60,000)	(120,000)
Public Defender	GF	NP0005 Union Career Ladder Pay Increases	(141,114)	(235,372)
Agriculture	GF	NP3005 Invasive Species Advisory Council Bien/OTO	(166,500)	(166,500)
Corrections	GF	NP0208 Annualize Mental Health Meds and Services	(246,094)	(246,094)
Corrections	GF	NP0219 Pre-Release/Treatment Prog Per Diem Rate Increase	(392,625)	(785,249)
Corrections	GF	NP0301 MSP Staff Transportation	(202,393)	(202,393)
Corrections	SSR	NP0301 MSP Staff Transportation	(41,428)	(41,428)
Corrections	GF	NP0313 Contract Beds Per Diem Increase	(60,581)	(121,162)
Corrections	GF	NP5101 JDIP Fund Reduction	(1,000,000)	(1,000,000)
Corrections	GF	PL0102 Leased Vehicles for Investigations	(11,087)	(11,087)
Corrections	GF	PL0201 Probation and Parole Population Growth	(132,245)	(103,361)
Corrections	GF	PL0202 TSCTC Full Time Registered Nurse	(59,397)	(57,367)
Corrections	GF	PL0205 Annualize Sex Offender Facility	(2,819,625)	(2,819,625)
Corrections	GF	PL0206 Annualize Northwest Prerelease	248,784	248,784
Corrections	GF	PL0216 Additional START Beds	430,700	430,700
Corrections	GF	PL0302 MSP Shift Relief Additional FTE	(34,771)	(23,243)
Corrections	GF	PL0314 Work Dorm Expansion	(92,500)	(92,500)
Corrections	GF	PL0315 MWP Correctional Counselors	(218,427)	(218,720)
Corrections	GF	PL0701 HR Training Support	(52,199)	(50,099)
Corrections	GF	PL0801 BOPP Secretary FTE	(36,585)	(33,997)
Commerce	GF	NP5190 BRD New Worker Training -OTO	(2,120,742)	(2,120,728)
Commerce	GF	NP5192 EPDD Energy Division -Reauthorize OTO	(125,000)	(125,000)
Commerce	GF	NP6106 2010 Decennial Census- OTO	(51,085)	(39,397)
Commerce	GF	NP7409 Manufactured Home Renovation - Bien/OTO	(354,886)	0
Commerce	SSR	NP7409 Manufactured Home Renovation - Bien/OTO	(354,886)	0
Commerce	GF	NP7410 Eliminate Manufactured Home Base Position	(92,938)	(92,952)
Commerce	SSR	PL6002 CDD Administrative Costs Adjustments HB 2	100,000	100,000
Commerce	GF	PL6105 Montana Equity Capital Act - OTO	(50,000)	(50,000)
Labor & Industry	GF	NP0102 21st Century Workforce	(275,000)	(275,000)
Military Affairs	GF	PL2104 Correct Adjusted Base Funding	137,396	137,463
Military Affairs	FF	PL2104 Correct Adjusted Base Funding	(137,396)	(137,463)
Public Health & Human Svc	GF	NP10009 Provider Rate Increase - DSD	(393,001)	(933,246)
Public Health & Human Svc	FF	NP10009 Provider Rate Increase - DSD	(411,048)	(962,969)
Public Health & Human Svc	GF	NP10012 Transitions Coordinator	(50,004)	(50,019)
Public Health & Human Svc	GF	NP10020 Early Intervention Caseload Growth	(1,130,289)	(1,179,403)
Public Health & Human Svc	SSR	NP10020 Early Intervention Caseload Growth	600,000	600,000
Public Health & Human Svc	GF	NP11016 Dental Expansion	(100,000)	(200,000)
Public Health & Human Svc	GF	NP11029 Federal Mandate to TGF and TFC	(166,189)	(168,540)
Public Health & Human Svc	FF	NP11029 Federal Mandate to TGF and TFC	(345,003)	(342,652)
Public Health & Human Svc	SSR	NP11033 Provider Rate Increase - CHIP	(3,772)	(7,749)

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Figure 1 (continued from previous page)

2011 Biennium Executive Budget Revisions
Adjustments Received December 15, 2008 - Per 17-7-112(9), MCA

Agency	Fund	Decision Package	FY 2010	FY 2011
Public Health & Human Svc	FF	NP11033 Provider Rate Increase - CHIP	(12,844)	(25,896)
Public Health & Human Svc	GF	NP11044 Provider Rate Increase - Medicaid	(530,117)	(1,088,678)
Public Health & Human Svc	FF	NP11044 Provider Rate Increase - Medicaid	(1,100,512)	(2,213,348)
Public Health & Human Svc	GF	NP20018 Montana Hunger Reduction OTO	(125,000)	(125,000)
Public Health & Human Svc	GF	NP20019 Low-Income Energy Assistance Program (LIEAP) OTO	(200,000)	(200,000)
Public Health & Human Svc	GF	NP20020 Reduction of Child Care Market Rate Increase	(280,925)	(855,745)
Public Health & Human Svc	GF	NP22101 Continue Aging Services Funding	(1,050,000)	(1,050,000)
Public Health & Human Svc	GF	NP22103 HCBS Waiver Expansion	(40,000)	(600,000)
Public Health & Human Svc	FF	NP22103 HCBS Waiver Expansion	(84,727)	(1,258,160)
Public Health & Human Svc	GF	NP22106 Provider Rate Increase - Nursing Home	(364,351)	(868,648)
Public Health & Human Svc	FF	NP22106 Provider Rate Increase - Nursing Home	(756,385)	(1,766,014)
Public Health & Human Svc	GF	NP22107 Provider Rate Increase - Home Based	(89,205)	(218,354)
Public Health & Human Svc	FF	NP22107 Provider Rate Increase - Home Based	(185,188)	(443,926)
Public Health & Human Svc	GF	NP22108 Provider Rate Increase - Comm. Based Waiver	(75,903)	(181,537)
Public Health & Human Svc	FF	NP22108 Provider Rate Increase - Comm. Based Waiver	(157,573)	(369,077)
Public Health & Human Svc	GF	NP22109 Provider Rate Increase - Aging Services	(86,112)	(203,082)
Public Health & Human Svc	GF	NP30015 New FTE Package	(152,224)	15,000
Public Health & Human Svc	FF	NP30015 New FTE Package	(85,627)	150
Public Health & Human Svc	GF	NP30016 Provider Rate Increase - CFSD	(101,791)	(138,776)
Public Health & Human Svc	FF	NP30016 Provider Rate Increase - CFSD	(40,977)	(55,865)
Public Health & Human Svc	GF	NP33408 Annualize Intensive Community Services (Goal 189)	(400,000)	(400,000)
Public Health & Human Svc	GF	NP33701 Provider Rate Increase - AMDD	(235,275)	(483,059)
Public Health & Human Svc	SSR	NP33701 Provider Rate Increase - AMDD	(3,716)	(7,713)
Public Health & Human Svc	FF	NP33701 Provider Rate Increase - AMDD	(212,181)	(434,656)
Public Health & Human Svc	GF	NP33775 Restore Operating Base Budget Reduction @ MSH	(200,000)	(200,000)
Public Health & Human Svc	GF	NP60002 Temporary Services for Vital Statistics	(7,845)	(7,845)
Public Health & Human Svc	SSR	NP60002 Temporary Services for Vital Statistics	(8,639)	(8,639)
Public Health & Human Svc	GF	NP60003 Reimbursement Section FTE	(47,950)	2,775
Public Health & Human Svc	GF	NP60004 Internal Controls FTE	(34,355)	2,167
Public Health & Human Svc	SSR	NP60004 Internal Controls FTE	(13,332)	841
Public Health & Human Svc	FF	NP60004 Internal Controls FTE	(40,302)	2,542
Public Health & Human Svc	GF	NP70006 Fund Poison Control Hotline	0	(50,000)
Public Health & Human Svc	GF	PL10005 Rent For Non-State Facilities	8,850	0
Public Health & Human Svc	SSR	PL10005 Rent For Non-State Facilities	4,394	0
Public Health & Human Svc	FF	PL10005 Rent For Non-State Facilities	3,656	0
Public Health & Human Svc	GF	PL20006 OPA Offices and Central Office Rent Increases	43,286	3,201
Public Health & Human Svc	SSR	PL20006 OPA Offices and Central Office Rent Increases	451	34
Public Health & Human Svc	FF	PL20006 OPA Offices and Central Office Rent Increases	44,800	3,315
Public Health & Human Svc	GF	PL33504 Reduce MSH Base Budget - Equipment	(176,000)	(176,000)
Public Health & Human Svc	GF	PL50002 Child Support Enforcement Rent Increase	17,289	0
Public Health & Human Svc	FF	PL50002 Child Support Enforcement Rent Increase	33,561	0
Public Health & Human Svc	SSR	PL70100 Newborn Screening Follow-Up Program	161,980	161,980
Public Health & Human Svc	GF	PL90102 TSD Office Rent COL Increases	26,207	22,279
Public Health & Human Svc	SSR	PL90102 TSD Office Rent COL Increases	4,515	3,838
Public Health & Human Svc	FF	PL90102 TSD Office Rent COL Increases	30,782	26,169
Public Health & Human Svc	GF	PL90102 TSD Office Rent Increases	(25,909)	(22,279)
Public Health & Human Svc	SSR	PL90102 TSD Office Rent Increases	(4,463)	(3,838)
Public Health & Human Svc	FF	PL90102 TSD Office Rent Increases	(30,432)	(26,169)

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Figure 1 (continued from previous page)

2011 Biennium Executive Budget Revisions
Adjustments Received December 15, 2008 - Per 17-7-112(9), MCA

Agency	Fund	Decision Package	FY 2010	FY 2011
Statewide	GF	NP7101 Fuel Inflation Reduction	(203,939)	(253,245)
Statewide	SSR	NP7101 Fuel Inflation Reduction	(429,916)	(493,313)
Statewide	FF	NP7101 Fuel Inflation Reduction	(76,286)	(87,555)
Statewide	PF	PL7101 Fuel Inflation Reduction	(9,677)	(11,104)
Statewide	CUF	PL7101 Fuel Inflation Reduction	(60,319)	(69,236)
Statewide	GF	PL8101 Increasing 4% Vacancy Savings to 7%	(7,778,954)	(7,794,962)
Statewide	SSR	PL8101 Increasing 4% Vacancy Savings to 7%	(6,599,333)	(6,627,722)
Statewide	FF	PL8101 Increasing 4% Vacancy Savings to 7%	(4,343,343)	(4,354,594)
Statewide	PF	PL8101 Increasing 4% Vacancy Savings to 7%	(171,552)	(172,033)
Statewide	CUF	PL8101 Increasing 4% Vacancy Savings to 7%	(4,183,305)	(4,187,534)
		HB 2 Sub-total	($63,754,917)	($71,561,601)
		General Fund	(41,645,508)	(40,470,144)
		Other Funds	(22,109,409)	(31,091,457)
Statutory Appropriations				
Administration	GF	NP0110 Debt Service for New School Trust Lands	($496,363)	($986,851)
Administration	GF	PL0107 Bood Debt Service and Costs	1,062,221	1,180,273
Agriculture	GF	NP5008 Extend Growth Through Agriculture Program	0	(625,000)
Commerce	GF	NP5001 R&C MT Economic Development Statutory	0	(2,375,000)
Office of Public Instruction	SSR	PL0100 Guarantee Account Adjustment	0	(501,000)
Statewide	GF	NP8101 Increasing 4% Vacancy Savings to 7%	(15,754)	(15,789)
Statewide	SSR	NP8101 Increasing 4% Vacancy Savings to 7%	(101,354)	(101,745)
Statewide	SSR	PL7101 Fuel Inflation Reduction	(6,795)	(7,799)
		Statutory Appropriations Sub-total	$441,955	($3,432,911)
		General Fund	550,104	(2,822,367)
		Other Funds	(108,149)	(610,544)
Non-HB 2 Proprietary Funds				
Administration	PF	NP2101 Workers' Compensation Program 3.00 FTE	($47,353)	($50,850)
Commerce	PF	PL8107 MSD Software & Software Maintenance HB0576	11,100	0
Commerce	PF	PL8101 MSD Software & Software Maintenance HB0576	(11,100)	0
Statewide	PF	PL7101 Fuel Inflation Reduction	(2,392,396)	(2,745,925)
Statewide	PF	PL8101 Increasing 4% Vacancy Savings to 7%	(1,703,462)	(1,713,160)
		Non-HB 2 Proprietary Funds Sub-total	($4,143,211)	($4,509,935)
		General Fund	0	0
		Other Funds	(4,143,211)	(4,509,935)
		Grand Total	($67,456,173)	($79,504,447)
		General Fund	(41,095,404)	(43,292,511)
		Other Funds	(26,360,769)	(36,211,936)

APPENDIX B

INTRODUCTION TO APPENDIX B – EXECUTIVE BUDGET DETAIL

This appendix includes additional budget detail summarization of various features of the executive budget. The following lists the executive detail items that are discussed in this section:

- Present Law Proposals
- Executive Initiatives – New Proposals
- One-Time-Only Expenditure Detail
- Proposals with Increased Future Costs
- Fee Changes
- Fund Switches
- FTE Detail
- Fixed Costs
- FY 2009 Supplemental Requests – Detail
- Budget Comparisons
- Agency Budget Comparisons by Fund

PRESENT LAW PROPOSALS

The executive would add $194.3 million general fund and $436.7 million total funds in HB 2 for ongoing present law. (One-time-only present law adjustments would add another $3.6 million general fund and $10.2 million total funds.) Present law is defined in statute as "...that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

(a) changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;

(b) changes in funding requirements resulting from constitutional or statutory schedules or formulas;

(c) inflationary or deflationary adjustments; and

(d) elimination of nonrecurring appropriations."

Present law changes comprise almost 90 percent of the total ongoing adjustments proposed by the executive, underscoring the small number of new proposals. A couple of general themes are applied:

- The executive generally funds anticipated caseload and utilization increases in human services and population increases in corrections, and provides an inflationary increase for K-12 education

- The executive funds all statewide present law adjustments, and then applies a reduction to personal services through a new proposal and to inflation on fuel through an offsetting present law adjustment. Statewide present law adjustments (SWPLA) are made to account for three factors:
  - Fully funding all personal services cost at the annualized total, and then applying a vacancy savings rate (the rate in the SWPLA is 4 percent)
  - Inflation on selected items, including gasoline and diesel
  - Fixed costs so agencies receiving services from centralized functions can pay for those services
- All other general fund present law increases within agencies are minimal. For many agencies, SWPLAs are the largest and in many instances the only present law adjustment provided to agencies

Figure 1 shows the allocation of present law adjustments by function of state government in FY 2011, from the FY 2008 base. Increases to human services and "other agencies", primarily for environmental remediation, comprise almost 74 percent of the total.

Allocation of Present Law Adjustments, from FY 2008 Base
FY 2011 Executive Budget
HB 2 - Total Funds (including OTO)
Figure 1

Function	Percent of Total
K-12 Education	12.5%
Higher Education	7.0%
Corrections	5.6%
Public Health	51.9%
Other Agencies	22.9%

Major present law increases include the following:

- Public Health and Human Services – Medicaid and other program caseload and utilization growth, and implementation of the Healthy Montana Kids initiative (I-155)
- Office of Public Instruction – Enrollment growth and a 3 percent adjustment to Base aid
- Corrections – Population growth and annualization of programs begun in the 2009 biennium
- All Agencies – Statewide present law adjustments to fully fund personal services adjustments (minus a 4 percent vacancy savings rate), fixed costs, and inflation
- An offsetting reduction to the increase in SWPLAs for inflation on gasoline and diesel
- Environmental Quality - Activities for several Superfund sites
- Transportation - Various highways related activities

NEW PROPOSALS

The executive has proposed one of the smallest new proposals totals in several biennia – a negative $3.9 million general fund and positive $47.8 million total funds for ongoing new proposals ($7.8 million general fund and $71.2 million total funds for all new proposals in HB 2), and comprising only 0.6 percent of total ongoing funding in

that bill. Please note that this total is the net of and increases and reductions generated almost entirely from an increase in the proposed vacancy savings rate.

Figure 2 shows where, by function of state government, the executive would add funds.

Figure 2

New Proposals
2011 Biennium Executive Budget - All Funds
Incudes One-Time-Only Proposals

Function	Biennial Total	Percent of Total
K-12 Education	$3,291,090	4.6%
Higher Education	(11,388,859)	-16.0%
Corrections	319,868	0.4%
Public Health	30,801,051	43.2%
Other Agencies	48,223,869	67.7%
Total	$71,247,019	

As shown, new proposals in "other agencies" would comprise a significant share. The negative numbers for the University System are due to reductions in present law made via new proposals. Major general fund new proposals in HB 2 include:

- Maintenance of various economic development programs in the Department of Commerce that had been designated as one-time-only (OTO) in the 2009 biennium (the executive proposes that most be continued as OTO in the 2011 biennium)
- License plate replacement in the Departments of Corrections and Justice
- A 3 percent increase in special education each year
- A supercomputer in Butte (Department of Administration)

As stated above, the total increase is offset by a reduction in personal services due to an increase in the proposed vacancy savings rate from 4 percent to 7 percent for most positions and all funding sources. This reduction totals $16.4 million general fund and $47.1 million total funds (including certain reductions mistakenly coded to present law). It is this reduction in the Montana University System that primarily causes the negative ongoing general fund new proposal total.

All new proposals are discussed in the individual program narratives of the relevant agencies in volumes 3 through 7.

ONE-TIME-ONLY EXPENDITURES

The Governor, in recognition of the high fund balance but lowered revenues has limited proposed on-going expenditures to no more than the estimated on-going revenues. In addition, his budget proposes $55.0 million of one-time-only (OTO) general fund expenditures in the 2011 biennium, and an additional $71.9 million in state special revenues, $2.2 million in federal funds, and $0.2 million proprietary funds.

The general fund OTOs are listed in the following figure, by general purpose. The table also lists the appropriations source and where a further discussion of each can be found in the 2011 Biennium LFD Budget Analysis volumes.

Figure 3

One-Time-Only General Fund Requests
Executive Budget - 2011 Biennium

General Purpose/Specific Request	Amount	HB 2 or Other Bill	LFD Budget Analysis Reference
Conservation/Energy - $22.0 million			
Governor's 20X10	$21,960,000	HB 5	F-9
IT Related - $8.6 million			
DofA ESSC Moving Expense and Equipment	3,500,000	HB 10	F-15
DofA High Performance Computing	2,000,000	HB 2	A-194
DofA Interoperability	2,000,000	HB 10	F-15
Health Info Technology	750,000	HB 2	B-168
Livestock Brands System Upgrade	183,450	HB 2	C-233
Livestock Animal Hlth System Develop	98,100	HB 2	C-222
MBCC - NIBRS Web Stats	64,000	HB 2	D-43
Livestock Meat Inspection System	17,500	HB 2	C-236
Building Projects - $0.3 million			
Corrections Riverside Repairs	150,000	HB 2	D-239
Corrections Watch East Repairs	110,000	HB 2	D-189
Economic Development - $6.6 million			
New Worker Training	3,753,252	HB 2	A-270
Tribal	1,596,992	HB 2	A-270
New Energy Division	660,000	HB 2	A-275
Main Street	250,000	HB 2	A-270
Made in Montana	200,000	HB 2	A-270
Equity Capital Act	100,000	HB 2	A-268
Water Compacts - $5,.0 million			
Blackfeet Water Rights Compact	4,000,000	Other	---
Fort Belknap Water Rights Compact	1,000,000	Other	---
Other - $11.0 million			
License Plate New Issue	3,207,558	HB 2	D-77, D-213
Pay Plan Contingency/Training/Payment*	7,017,016	HB 13	
Debt Service Costs Arbitrage	215,000	Statutory	---
Commerce - Decennial Census	90,482	HB 2	A-270
Gov - Maintain Computer Replacement	123,335	HB 2	A-46
COPP - Additional Legal Costs	118,000	HB 2	A-67
Corrections - Produce Farming Program	100,000	HB 2	D-215
Gov - Executive Residence	50,000	HB 2	A-34
DofA - Workplace Accomodation for Disabled	50,000	HB 2	A-238
DNRC - Legal Imaging	10,000	HB 2	C-253
Corrections - Research Electronic Records	10,000	HB 2	D-166
COPP - Building Security Update	3,000	HB 2	A-68
Wildlife and Agriculture - $0.7 million			
Ag - Invasive Species Advisory	667,000	HB 2	C-310
FWP Whitefish Lake Monitoring	50,000	HB 2	C-117
Equipment/Supplies Replacement - $0.4 million			
Justice - Crime Lab Equipment	111,500	HB 2	D-113
Corrections MWP Maintenance/Supplies	75,000	HB 2	D-206
Corrections MSP Video Equipment	65,000	HB 2	D-203
Corrections MSP Equipment	50,000	HB 2	D-203
Justice - Computer Crime Unit Eq Replace	40,000	HB 2	D-98
BOPP Portable Equpment/computers	25,000	HB 2	D-155
Corrections PREA Supplies	15,000	HB 2	D-166
Justice Related - $0.5 million			
Justice - Meth Watch Continue	500,000	HB 2	D-98
Total	$54,986,185		

*Reflects amount in executive's December 15 balance sheet.

Over 76 percent of the funds requested would be spent in four general areas:

- The Governor's 20X10 (reduce energy use by 20 percent by 2010) initiatives to make state buildings more energy efficient
- Various IT projects
- Economic development
- Water compacts

STATE SPECIAL REVENUE

Of the $71.9 million in OTOs funded with state special revenue, $51.0 million, or over 70 percent, is for two items: 1) school trust bond issuance; and 2) removal of the sunset on the wildfire account established by the legislature in special session in September, 2007 to pay for wildfire costs. Of the remaining, $5.7 million is for Superfund remediation and $2.7 million is for the state employee pay plan.

PROPOSALS WITH INCREASED FUTURE COSTS

The executive has made several recommendations that would cost more money in the 2013 biennium than in the 2011. Therefore, before acting on any of the proposals shown in Figure 4, the legislature may wish to discuss long-term costs to ensure that future impacts on structural balance can be assessed. Please note that the following figure does not include caseload, population, or enrollment increases.

Figure 4

Governor's Proposals with Increased Future Costs
2011 Biennium Executive Budget
General Fund Costs, Only

Section/Agency	Purpose	2011 Bien General Fund	2013 Bien General Fund
Section B - Human Services			
DSD	DD waiting list reduction	$524,758	$593,553
Section D - Judicial Branch, Law Enforcement, and Justice			
Corrections	Items Related to Population Growth With Phase In	14,473,915	20,717,090
Corrections	Rate Increases	1,957,274	2,609,698
Office Of Public Defender	Rate Increase	180,000	240,000
Section E - Education			
OPI	Inflation of 3% Per Year Base Aid and Special Education**	73,075,969	89,985,370
Other			
Pay Plan	Health Insurance	11,583,207	20,385,870
Water Compact	Ft. Belknap: Total cost is $5 million*	---	---
Water Compact	Blackfoot: Total cost $20 million*	---	---
Total		$101,795,123	$134,531,581

*Total combined cost in the 2009 biennium is $5.0 million, while total cost is $25.0 million.
**Does not assume any change in enrollment, GTB, or guarantee account from the 2011 biennium projected level

FEE CHANGES

The executive budget has only one area of the budget where LFD staff has identified that fee increases will be necessary to generate the amount of state special revenue necessary to fund the executive proposal. It is shown in the figure below. For a further discussion, see the discussion beginning on page C-73 of Volume 5 of the 2011 Biennium LFD Budget Analysis.

Figure 5

Changes in Fees or Charges
Executive Budget 2011 Biennium

Section/Agency	Purpose	2011 Biennium General Fund	2011 Biennium Other Fuuds
Section C - Natural Resources and Transportation			
DEQ	Air Quality Permits		$1,800,000

FUND SWITCHES

The following figure shows funding switches proposed by the executive. As shown, the funding switches identified net to a general fund gain of over $3.8 million over the biennium. Further discussions of each can be found in the respective agency narratives in the appropriate volume of the 2011 Biennium LFD Budget Analysis.

Figure 6

Major Funding Switches
Executive Budget 2011 Biennium

Section/Agency	Purpose	2011 Biennium General Fund	2011 Biennium Other Funds
Section A - General Government			
Administration	Training development specialist to develop workforce development trai	$102,854	($102,854)
Section B - Human Services			
Foster Care Guardianship	Federal Title IV-E Waiver Guardianship Demonstration Project	200,000	(200,000)
Healthcare for Healthcare Workers	Medicaid provider rate increase for providers who opt to fund health insurance for their workers	(2,441,361)	2,441,361
CHIP State Matching Funds		2,432,164	(2,432,164)
Early Intervention	Reduction from the Governor's November budget request of $2.3 million general fund to fund caseload growth	(1,200,000)	1,200,000
Section C - Natural Resources and Transportation			
DNRC - Central Services Division	General department administration	498,000	(498,000)
Agriculture - Grain Lab	Additional resource support	250,000	(250,000)
Section E - Education			
Montana University System	Six-mill levy revenue	(3,700,000)	3,700,000
Total		($3,858,343)	$3,858,343

FTE

The executive would increase the number of FTE funded in HB 2 by 3.0 percent from FY 2008 to FY 2011. As shown in Figure 7, the total increase would be 334.35 FTE in FY 2010 and 364.52 FTE in FY 2011.

Figure 7

Total Proposed FTE Levels
2011 Biennium Executive Budget

Section/Agency	Base FY 2008	Net Change FY 2010	Total FY 2010	Net Change FY 2011	Total FY 2011	Change FY 2008-FY2011
Section A*						
Legislative Branch**	129.97	1.00	130.97	6.17	136.14	4.7%
Consumer Counsel	5.54	0.00	5.54	0.00	5.54	0.0%
Governor's Office	60.07	0.00	60.07	0.00	60.07	0.0%
Commissioner of Political Practices	6.00	0.00	6.00	0.00	6.00	0.0%
State Auditor	78.50	5.00	83.50	5.00	83.50	6.4%
Revenue	645.53	17.00	662.53	19.00	664.53	2.9%
Admininstration*	154.62	0.50	155.12	1.00	155.62	0.6%
Consensus Council	2.50	-2.50	0.00	-2.50	0.00	-100.0%
Commerce*	46.66	9.00	55.66	9.00	55.66	19.3%
Labor and Industry	730.08	40.00	770.08	40.00	770.08	5.5%
Military Affairs	182.15	10.50	192.65	10.50	192.65	5.8%
Section B						
Public Health and Human Services	2,892.38	102.05	2,994.43	116.55	3,008.93	4.0%
Section C						
Fish, Wildlife, and Parks	678.60	13.48	692.08	13.48	692.08	2.0%
Environmental Quality	376.29	8.00	384.29	8.00	384.29	2.1%
Tranportation	2,134.96	11.00	2,145.96	11.00	2,145.96	0.5%
Livestock	137.99	3.50	141.49	5.50	143.49	4.0%
Natural Resources and Conservation	544.37	9.32	553.69	9.32	553.69	1.7%
Agriculture	115.54	5.00	120.54	5.00	120.54	4.3%
Section D						
Judiciary	397.08	6.50	403.58	6.50	403.58	1.6%
Board of Crime Control	19.50	0.50	20.00	0.50	20.00	2.6%
Justice	690.27	5.00	695.27	5.00	695.27	0.7%
Public Service Commission	39.00	2.00	41.00	2.00	41.00	5.1%
Office of the Public Defender	192.50	8.00	200.50	8.00	200.50	4.2%
Corrections	1,255.64	69.00	1,324.64	75.00	1,330.64	6.0%
Section E						
Office of Public Instruction	157.36	8.50	165.86	8.50	165.86	5.4%
Board of Public Education	4.00	0.00	4.00	0.00	4.00	0.0%
School for the Deaf and Blind	88.61	0.00	88.61	0.00	88.61	0.0%
Commissioner of Higher Education***	104.05	2.00	106.05	2.00	106.05	1.9%
Arts Council	7.00	0.00	7.00	0.00	7.00	0.0%
State Library	30.50	0.00	30.50	0.00	30.50	0.0%
Historical Society	61.14	0.00	61.14	0.00	61.14	0.0%
Totals	11,968.40	334.35	12,302.75	364.52	12,332.92	3.0%
Montana University System	4,671.59	0.00	4,671.59	0.00	4,671.59	0.0%

*The Office of the Secretary of State and a significant number of Department of Administration and Department of Commerce staff are funded with proprietary funds not included in HB 2.
**FY 2011 includes session staff.
***Includes only staff within the Office of the Commissioner of Higher Education.

Please note that the figure does not include any FTE funded with proprietary funds or statutory appropriations.

A number of agencies would receive increases. However, increases to four agencies, Revenue, Labor and Industry, Public Health and Human Services, and Corrections, are over two-thirds of the increase.

- Revenue – FTE are added to continue increased compliance initiatives begun by the 2007 Legislature for which the legislature had provided funding but no associated FTE
- Labor and Industry – The Governor would transfer existing staff from proprietary funds, which are not budgeted in HB 2, to HB 2 budgeted positions, which accounts for 33.00 of the 40.00 FTE increase
- Public Health and Human Services – The most significant increases would be for FTE associated with the passage of I-155 (Healthy Kids Initiative). Smaller increases are for increased institutional staff, increased workload in Child Protective Services, human resource specialists, and various other additions
- Corrections – The Governor would add staff for a work dorm expansion and to provide additional probation and parole staff

Detailed descriptions of the decision packages that fund the new FTE are found in the respective agency and program narratives in Volumes 3 through 7 of the 2011 Biennium LFD Budget Analysis.

OTHER FTE

While HB 2 funds the great majority, FTE are also funded from non-budgeted proprietary funds and statutory appropriations.

In the 2011 biennium the executive budget includes funding for 1,199.29 FTE in FY 2010 and 1,204.79 FTE in FY 2011 funded with proprietary funds, primarily in the Departments of Administration and Transportation and the State Fund (a quasi-independent entity that determines its own FTE level). These totals are slight reductions from the FY 2008 base, primarily due to the reclassification of 33.00 FTE in the Department of Labor and Industry to HB 2 funded positions.

A total of 135.32 FTE each year are funded with statutory appropriations, primarily in Commerce for Travel Montana and the Department of Justice, primarily for certain highway patrol offices.

FIXED COSTS

The Governor is proposing two changes in fixed costs:

- A major change in the way in which centralized information technology (IT) services performed by the Information Technology Services Division (ITSD) within the Department of Administration are funded. Currently, these functions are primarily funded through an assessment on each computer. The Governor is

proposing to fund these services through an activity-based budgeting system that charges agencies for the information technology services in a way that more closely relates to the actual services used by each individual user. This change results in an increase in costs in the 2011 biennium, although the 2011 biennium would be a transition year and actual costs be refined as the biennium progresses. A further discussion is on page A-195 of Volume 3 in the Department of Administration.

- The addition of a new fixed cost to fund a workers compensation management function begun by the 2007 Legislature as a one-time-only proposal. A further discussion is found in Volume 3 on page A-229.

The following figure shows proposed fixed costs in the executive budget.

Figure 8

Fixed Costs
2011 Biennium Executive Budget (in millions)*

Subcommittee/Agency	Function	Total
General Government		
Administration	Insurance and Bonds	$24.6
	Warrant Writing Fees	2.2
	Human Resources	6.1
	ITSD	8.9
	SABHRS Operating	8.9
	Messenger Services	0.6
	Rent - Buildings	21.6
	Grounds Maintenance	1.0
	Workers Compensation**	0.8
Legislative Audit Division	Audit Fees	3.6
Various	Statewide Cost Allocation	8.3
Total		$86.6

*All funds, including funds not appropriated in HB 2

**Proposed by the executive

For an explanation of each of the fixed costs, see "Budget Basics" at the following address: http://leg.mt.gov/css/fiscal/2011_biennium/budget_analysis.asp

SUPPLEMENTAL APPROPRIATIONS

The executive is proposing $2.4 million in general fund and $23.0 million in other funds in supplemental appropriations for FY 2009. This amount of general fund represents the lowest amount ever requested in the 22 years the figure has been consistently tracked by the Legislative Fiscal Division. This low number is primarily due to two factors:

- Medicaid and corrections costs were below the level funded by the legislature.

- Total state-responsibility fire costs in the 2009 biennium were $59 million, which ordinarily would have been funded with a general fund supplemental appropriation. In the 2009 biennium, all FY 2008 costs, which were among the highest the state has ever incurred, were funded in the September 2007 Special Session. At the same time, the legislature pre-funded all FY 2009 fire costs, which were significantly lower than average.

Figure 9 shows supplemental appropriations since the 1987 biennium.

General Fund Supplementals
1987 to 2009 Biennium
Figure 9

Biennium	Millions
1987	$32.7
1989	17.1
1991	20.4
1993	82.2
1995	19.9
1997	14.2
1999	11.5
2001	68.2
2003	12.5
2005	12.7
2007	76.4
2009	2.4

Figure 10 details the FY 2009 executive request. The following provides a brief description of each.

- Livestock (Brucellosis) – The executive is requesting general fund from the Brucellosis Management Program to assist in reviewing brucellosis free status. This funding source represents a shift in assumption of the overall public policy inherent in brucellosis control, and any unspent balance remaining is also proposed for expenditure in the 2011 biennium. For a further discussion of the issues involved with this proposal, see the Department of Livestock narrative, page C-198 in Volume 5 of the 2011 Biennium Legislative Fiscal Division Budget Analysis

Figure 10

Supplemental Appropriations Requests
Executive Budget - 2009 Biennium

Agency/Program	General Fund	Other Funds
Livestock		
Brucellosis	$2,375,784	$0
Natural Resources and Conservation		
Fires Costs*	-	3,000,000
Board of Crime Control		
Misdemeanor Probation for Domestic Violence		15,000
Transportation		
Construction Program		20,000,000
Total	$2,375,784	$23,015,000

- DNRC (Fire Costs) – This appropriation funds the remainder of the 2008 fire season costs not covered by the appropriation from the September 2007 Special Session. The amount of federal reimbursements assumed at that time was not realized. Although this supplemental request shows a state special revenue source, any funds remaining in the account from which this appropriation would be made are deposited to the general fund. For a further discussion of 2009 biennium fire costs, see the Department of Natural Resources and Conservation narrative, page C-241 in Volume 5 of the 2011 Biennium Legislative Fiscal Division Budget Analysis. Figure 11 shows total fire costs included in supplemental appropriations since the 1983 biennium

Supplemental Appropriations for Fire Suppression
1983 to 2009 Biennium
(in millions)
Figure 11

Biennium	Supplemental Appropriation	Statutory Appropriations	Total
1983	$0.80	$0.00	$0.80
1985	2.90	0.00	2.90
1987	3.74	0.00	3.74
1989	12.64	0.00	12.64
1991	3.00	0.50	3.50
1993	7.94	1.96	9.90
1995	15.50	8.92	24.42
1997	4.47	3.10	7.57
1999	10.55	0.00	10.55
2001	33.22	6.20	39.42
2003	9.07	7.01	16.08
2005	0.00	0.00	0.00
2007	30.06	13.00	43.06
2009*	3.00	8.00	11.00

*Appropriation is for state special revenue initially funded with general fund in FY 2009. All others were general fund. Other 2009 biennium state fire costs were about $56 million, funded with general fund and

- Montana Board of Crime Control (Misdemeanor Probation for Domestic Violence) – Additional spending authority is requested from fees earmarked for this purpose. A further discussion is on page D-39 of Volume 6 of the 2011 Biennium Legislative Fiscal Division Budget Analysis
- Transportation (Construction) – The Governor requests state special revenue from the Highways State Special Revenue Account and federal funds for increased construction costs. The funds are requested at the 87 percent federal/13 percent state match rate. Additional information begins on page C-134 in Volume 5 of the 2011 Biennium Legislative Fiscal Division Budget Analysis

AGENCY BUDGET COMPARISONS BY FUND

This section provides a comparison, by agency, of the Governor's executive budget recommendations for HB 2 as compared to the 2009 biennium. For each fund type, a table shows the comparison by agency. Also included for each fund type is a pie chart showing the amount and percent of each fund by major program area, and a bar graph that shows the percentage increase by major program area. The narrative describes the primary reasons for the budget changes, by fund type. Please note that in the following sections both the discussion and the figures include ongoing funding, only and do not include on-time-only (OTO) proposals.

GENERAL FUND

As defined in 17-2-102, MCA, the general fund "accounts for all financial resources except those required to be accounted for in another fund." The general fund provides funding for the general operations of state government.

As shown in Figure 12, the general fund would increase by $190.4 million, or 6.0 percent. If one-time-only expenditures are included, the increase would total $205.9 million, or 6.5 percent.

Primary increases include:

- Office of Public Instruction - A 3 percent per year increase in the Base aid schedules and special education
- Department of Public Health and Human Services - Medicaid caseload and utilization increases, and an increase in the percentage of Medicaid expenditures that must be paid for by the state (FMAP)
- Department of Corrections - Population increases and annualization of initiatives begun in the 2009 biennium
- All Agencies - Statewide present law adjustments, particularly fully funding personal services (minus a 7 percent vacancy savings rate)
- Department of Revenue – Primarily statewide present law adjustments

Figure 12

Fund Comparison
2009 Biennium versus Executive Budget Proposal 2011 Biennium

General Fund House Bill 2 Proposals Agency Number and Name	Adjusted Base FY 2008	Adjusted Authorized FY 2009	Adjusted Total FY 08-09	Executive Budget-OTO FY 2010	Executive Budget-OTO FY 2011	Executive Budget-OTO FY 10-11	Biennial Change	Biennial Percent
1104 Legislative Branch	$ 9,116,067.00	$ 11,249,936.00	$ 20,366,003.00	$ 11,895,695.00	$ 12,102,301.00	$ 23,997,996.00	$ 3,631,993.00	17.8%
2110 Judicial Branch	32,171,909	35,547,624	67,719,533	35,103,986	34,990,838	70,094,824	2,375,291	3.5%
3101 Governor's Office	5,820,498	5,902,462	11,722,960	6,043,229	5,928,652	11,971,881	248,921	2.1%
3202 Comm Of Political Practices	365,420	448,840	814,260	471,198	464,027	935,225	120,965	14.9%
3501 Office Of Public Instruction	642,761,421	666,049,445	1,308,810,866	676,995,196	694,351,893	1,371,347,089	62,536,223	4.8%
4107 Crime Control Division	2,195,808	2,304,278	4,500,086	2,502,594	2,506,510	5,009,104	509,018	11.3%
4110 Department Of Justice	23,761,709	25,275,706	49,037,415	25,726,019	25,783,274	51,509,293	2,471,878	5.0%
5101 Board Of Public Education	209,990	224,324	434,314	225,710	228,257	453,967	19,653	4.5%
5102 Commissioner Of Higher Education	170,167,847	186,280,601	356,448,448	182,035,240	184,764,463	366,799,703	10,351,255	2.9%
5113 School For The Deaf & Blind	5,300,570	5,946,429	11,246,999	5,812,060	5,766,160	11,578,220	331,221	2.9%
5114 Montana Arts Council	467,889	459,035	926,924	476,541	466,129	942,670	15,746	1.7%
5115 Montana State Library	2,348,128	2,513,420	4,861,548	2,778,936	2,766,522	5,545,458	683,910	14.1%
5117 Montana Historical Society	2,668,353	2,721,748	5,390,101	2,749,085	2,744,958	5,494,043	103,942	1.9%
5201 Department Of Fish, Wildlife & Parks	-	-	-	-	-	-	-	
5301 Department Of Environmental Quality	4,785,174	5,088,372	9,873,546	5,890,015	5,915,515	11,805,530	1,931,984	19.6%
5401 Department Of Transportation	-	-	-	-	-	-	-	
5603 Department Of Livestock	1,065,499	1,162,620	2,228,119	1,107,604	1,116,389	2,223,993	(4,126)	-0.2%
5706 Dept Of Natural Resources & Conservation	20,883,410	21,819,894	42,703,304	22,970,073	22,997,944	45,968,017	3,264,713	7.6%
5801 Department Of Revenue	46,999,289	48,766,397	95,765,686	50,866,436	50,979,667	101,846,103	6,080,417	6.3%
6101 Department Of Administration	6,341,405	6,740,525	13,081,930	6,827,281	6,824,452	13,651,733	569,803	4.4%
6106 Mt Consensus Council	86,978	66,412	153,390	-	-	-	(153,390)	-100.0%
6108 Office Of The Public Defender	19,226,052	19,577,568	38,803,620	20,214,823	20,066,882	40,281,705	1,478,085	3.8%
6201 Department Of Agriculture	781,165	910,664	1,691,829	1,071,825	1,032,472	2,104,297	412,468	24.4%
6401 Department Of Corrections	153,515,661	185,172,717	338,688,378	175,085,333	181,939,789	357,025,122	18,336,744	5.4%
6501 Department Of Commerce	2,452,220	2,592,842	5,045,062	2,622,496	2,619,579	5,242,075	197,013	3.9%
6602 Department Of Labor & Industry	2,235,593	2,134,687	4,370,280	2,628,206	2,630,155	5,258,361	888,081	20.3%
6701 Department Of Military Affairs	5,345,653	5,537,043	10,882,696	5,765,949	5,876,537	11,642,486	759,790	7.0%
6901 Dept Of Public Health & Human Services	348,225,059	396,614,084	744,839,143	402,101,088	415,940,426	818,041,514	73,202,371	9.8%
Total House Bill 2 Proposals	$1,509,298,767	$1,641,107,673	$3,150,406,440	$1,649,966,618	$1,690,803,791	$3,340,770,409	$190,363,969	6.0%

Figure 13

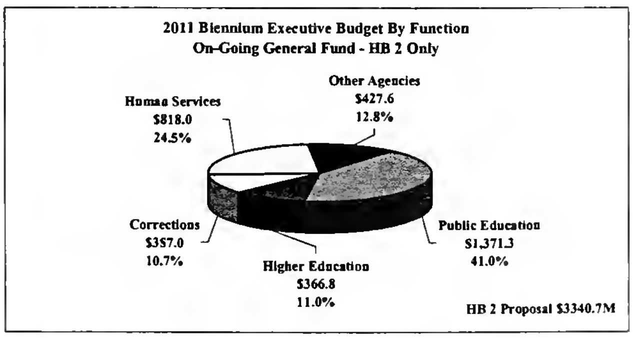
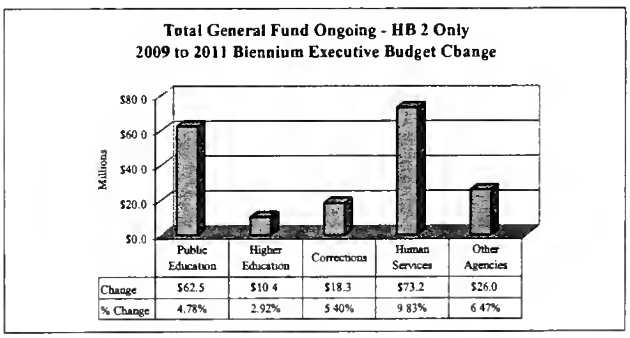


Figure 14



STATE SPECIAL REVENUE

As defined in 17-2-102, MCA, the state special fund "consists of money from state and other non-federal sources deposited in the state treasury that is earmarked for the purposes of defraying particular costs of an agency, program, or function of state government and money from other non-state or non-federal sources that is restricted by law or by the terms of an agreement, such as a contract, trust agreement, or donation."

State special revenue would increase by $117.5 million, or 9.8 percent from the 2009 biennium ($135.3 million and 11.3 percent if OTOs are included). As with general fund, proposed increases are widespread across state government. However, three agencies account for almost 69 percent of the total increase.

- Department of Public Health and Human Services - Implementation of the Healthy Kids Initiative to increase health insurance coverage for children
- Department of Environmental Quality – Funding for activities at several Superfund sites, hard rock and major facility siting projects, permitting and compliance, and public water supply staff
- Fish, Wildlife, and Parks – Statewide present law adjustments and a number of other agency-wide adjustments, including additional funds for block management

The Department of Transportation, which expends the most state special revenue funds for various highways related activities, has limited growth due in part to the status of the highways state special revenue account.

Figure 15

Fund Comparison
2009 Biennium versus Executive Budget Proposal 2011 Biennium

State/other Special Rev. Funds House Bill 2 Proposals Agency Number and Name	Adjusted Base FY 2008	Adjusted Authorized FY 2009	Adjusted Total FY 08-09	Executive Budget-OTO FY 2010	Executive Budget-OTO FY 2011	Executive Budget-OTO FY 10-11	Biennial Change	Biennial Percent
1104 Legislative Branch	$ 2,258,093.00	$ 2,334,773.00	$ 4,592,866.00	$ 2,688,631.00	$ 2,026,762.00	$ 4,715,393.00	$ 122,527.00	2.7%
1112 Consumer Council	1,262,908	1,535,286	2,798,194	1,751,585	1,762,560	3,514,145	715,951	25.6%
2110 Judicial Branch	1,773,813	1,900,080	3,673,893	2,178,332	2,211,483	4,389,815	715,922	19.5%
3101 Governor's Office	21,000	27,800	48,800	32,500	32,500	65,000	16,200	33.2%
3401 State Auditor's Office	15,328,050	17,524,850	32,852,900	18,590,321	19,067,884	37,658,205	4,805,305	14.6%
3501 Office Of Public Instruction	957,495	991,734	1,949,229	965,495	965,541	1,931,036	(18,193)	-0.9%
4107 Crime Control Division	67,087	131,984	199,071	164,994	164,993	329,987	130,916	65.8%
4110 Department Of Justice	35,011,954	44,540,438	79,552,392	40,166,200	40,090,095	80,256,295	703,903	0.9%
4201 Public Service Regulation	3,159,782	3,354,897	6,514,679	3,708,070	3,458,124	7,166,194	651,515	10.0%
5101 Board Of Public Education	166,066	185,551	351,617	186,049	185,632	371,681	20,064	5.7%
5102 Commissioner Of Higher Education	18,154,607	17,031,878	35,186,485	20,983,129	19,281,178	40,264,307	5,077,822	14.4%
5113 School For The Deaf & Blind	417,370	293,924	711,294	402,085	416,723	818,808	107,514	15.1%
5114 Montana Arts Council	204,517	214,756	419,273	213,080	211,705	424,785	5,512	1.3%
5115 Montana State Library	1,054,978	1,055,012	2,109,990	803,557	803,555	1,607,112	(502,878)	-23.8%
5117 Montana Historical Society	78,768	274,138	352,906	138,171	138,396	276,567	(76,339)	-21.6%
5201 Department Of Fish, Wildlife & Parks	50,860,770	53,604,968	104,465,738	56,147,428	56,264,706	112,412,134	7,946,396	7.6%
5301 Department Of Environmental Quality	18,943,357	24,069,733	43,013,090	29,152,861	29,084,942	58,237,803	15,224,713	35.4%
5401 Department Of Transportation	210,536,687	245,824,393	456,361,080	229,974,326	228,337,831	458,312,157	1,951,077	0.4%
5603 Department Of Livestock	6,781,645	7,507,746	14,289,391	8,000,369	8,350,548	16,350,917	2,061,526	14.4%
5706 Dept Of Natural Resources & Conservation	24,052,836	26,686,335	50,739,171	26,236,491	26,455,494	52,691,985	1,952,814	3.8%
5801 Department Of Revenue	823,595	882,192	1,705,787	1,100,505	1,089,366	2,189,871	484,084	28.4%
6101 Department Of Administration	5,545,483	7,123,851	12,669,334	7,585,316	7,571,404	15,156,720	2,487,386	19.6%
6106 Mt Consensus Council	62,457	122,243	184,700	-	-	-	(184,700)	-100.0%
6108 Office Of The Public Defender	43,456	75,000	118,456	43,456	43,456	86,912	(31,544)	-26.6%
6201 Department Of Agriculture	9,343,877	10,489,602	19,833,479	12,411,271	12,412,019	24,823,290	4,989,811	25.2%
6401 Department Of Corrections	3,106,783	3,665,848	6,772,631	4,041,421	4,044,437	8,085,858	1,313,227	19.4%
6501 Department Of Commerce	2,442,145	6,110,217	8,552,362	7,499,882	4,473,898	11,973,780	3,421,418	40.0%
6602 Department Of Labor & Industry	33,593,817	36,684,078	70,277,895	37,711,146	38,018,086	75,729,232	5,451,337	7.8%
6701 Department Of Military Affairs	1,004,215	1,472,895	2,477,110	1,407,954	1,377,190	2,785,144	308,034	12.4%
6901 Dept Of Public Health & Human Services	106,278,801	130,660,952	236,939,753	144,549,631	150,062,857	294,612,488	57,672,735	24.3%
Total House Bill 2 Proposals	$553,336,412	$646,377,154	$1,199,713,566	$658,834,256	$658,403,365	$1,317,237,621	$117,524,055	9.8%

Figure 16

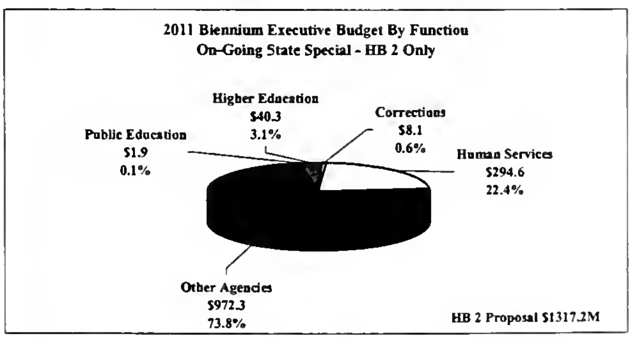
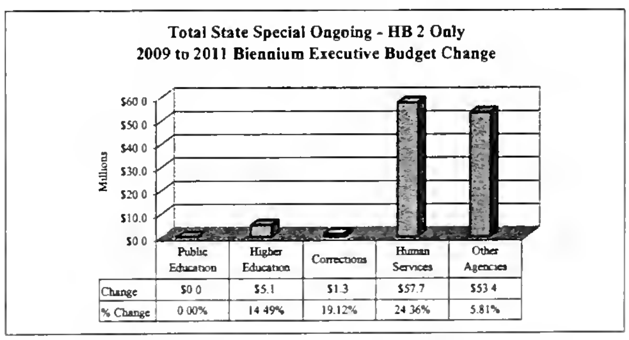


Figure 17



FEDERAL SPECIAL REVENUE

As defined in 17-2-102, MCA, the federal special fund "consists of money deposited in the treasury from federal sources, including trust income that is used for the operation of state government."

Federal funds increase by 5.5 percent, or $181.8 million (OTOs are negligible). Most agencies receive some federal funds. However, the Departments of Public Health and Human Services and Transportation account for almost 80 percent of the federal funds proposed in the Governor's budget and the Department of Public Health and Human Services would receive almost 90 percent of the proposed increase.

- Department of Public Health and Human Services - Medicaid caseload and utilization increases, (partially offset by a reduction in the amount of Medicaid expenditures paid for by the federal government (FMAP)), and increases to other programs and grants
- Department of Transportation - General increases in funding for highway construction
- Department of Military Affairs – Homeland security grants that had previously been added via budget amendment during the interim
- Department of Commerce – Primarily increases in grants and an accounting adjustment

The reduction in the Board of Crime Control (Crime Control Division) is due to non-inclusion in the budget of grants that had been anticipated in the 2009 biennium but not received.

Figure 18

Fund Comparison
2009 Biennium versus Executive Budget Proposal 2011 Biennium

Federal Spec. Rev. Funds House Bill 2 Proposals Agency Number and Name	Adjusted Base FY 2008	Adjusted Authorized FY 2009	Adjusted Total FY 08-09	Executive Budget-OTO FY 2010	Executive Budget-OTO FY 2011	Executive Budget-OTO FY 10-11	Biennial Change	Biennial Percent
2110 Judicial Branch	$ 122,397.00	$ 129,158.00	$ 251,555.00	$ 124,915.00	$ 124,929.00	$ 249,844.00	(1,711)	-0.7%
3101 Governor's Office	-	-	-	-	-	-	-	
3201 Secretary Of State's Office	-	-	-	-	-	-	-	
3501 Office Of Public Instruction	139,309,382	171,154,070	310,463,452	149,753,657	152,869,716	302,623,373	(7,840,079)	-2.5%
4107 Crime Control Division	6,055,846	28,678,917	34,734,763	6,323,936	6,324,472	12,648,408	(22,086,355)	-63.6%
4110 Department Of Justice	1,335,049	1,736,714	3,071,763	1,731,190	1,734,439	3,465,629	393,866	12.8%
4201 Public Service Regulation	20,405	21,035	41,440	24,943	24,908	49,851	8,411	20.3%
5102 Commissioner Of Higher Education	40,929,549	83,459,942	124,389,491	53,244,819	56,042,166	109,286,985	(15,102,506)	-12.1%
5113 School For The Deaf & Blind	92,676	100,703	193,379	82,973	82,973	165,946	(27,433)	-14.2%
5114 Montana Arts Council	577,424	623,369	1,200,793	600,838	596,485	1,197,323	(3,470)	-0.3%
5115 Montana State Library	955,391	1,417,366	2,372,757	1,411,221	811,203	2,222,424	(150,333)	-6.3%
5117 Montana Historical Society	620,578	643,738	1,264,316	634,412	620,576	1,254,988	(9,328)	-0.7%
5201 Department Of Fish, Wildlife & Parks	13,985,579	15,446,274	29,431,853	15,255,643	15,320,398	30,576,041	1,144,188	3.9%
5301 Department Of Environmental Quality	19,358,326	26,842,497	46,200,823	23,102,868	23,139,541	46,242,409	41,586	0.1%
5401 Department Of Transportation	301,621,565	314,908,329	616,529,894	319,240,601	326,528,576	645,769,177	29,239,283	4.7%
5603 Department Of Livestock	1,447,854	1,632,461	3,080,315	1,421,763	1,427,063	2,848,826	(231,489)	-7.5%
5706 Dept Of Natural Resources & Conservation	1,752,203	1,838,632	3,590,835	2,091,237	2,074,655	4,165,892	575,057	16.0%
5801 Department Of Revenue	194,192	424,881	619,073	202,528	201,679	404,207	(214,866)	-34.7%
6101 Department Of Administration	296,871	624,201	921,072	311,871	311,871	623,742	(297,330)	-32.3%
6201 Department Of Agriculture	2,195,170	2,638,954	4,834,124	2,385,251	2,386,774	4,772,025	(62,099)	-1.3%
6401 Department Of Corrections	134,148	223,376	357,524	134,079	134,068	268,147	(89,377)	-25.0%
6501 Department Of Commerce	16,082,955	17,875,184	33,958,139	21,842,901	21,946,144	43,789,045	9,830,906	29.0%
6602 Department Of Labor & Industry	28,535,931	34,251,539	62,787,470	31,180,211	30,926,446	62,106,657	(680,813)	-1.1%
6701 Department Of Military Affairs	19,976,360	21,965,656	41,942,016	33,306,315	33,439,914	66,746,229	24,804,213	59.1%
6901 Dept Of Public Health & Human Services	902,818,408	1,062,643,179	1,965,461,587	1,045,719,484	1,082,260,706	2,127,980,190	162,518,603	8.3%
Total House Bill 2 Proposals	$1,498,418,259	$1,789,280,175	$3,287,698,434	$1,710,127,656	$1,759,329,702	$3,469,457,358	$181,758,924	5.5%

Figure 19

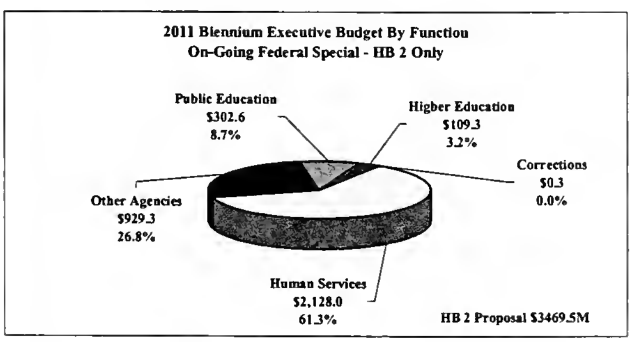
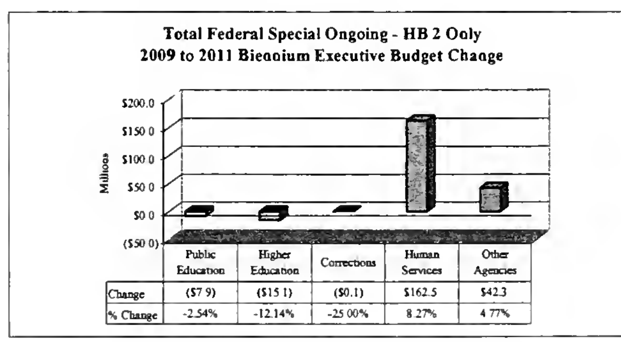


Figure 20



PROPRIETARY FUNDS

As defined in 17-7-102, MCA, proprietary funds are designated as either enterprise or internal service funds. Enterprise funds "account for operations: (A) that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e. expenses, including depreciation) of providing goods or services to that general public on a continuing basis are to be financed or recovered primarily through user charges; or (B) whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes." Internal service funds "account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost reimbursed basis."

Statute does not require that most proprietary funds be appropriated. Therefore, any increases in the programs supported with these proprietary funds are not reflected in the figure.

Figure 21

Fund Comparison
2009 Biennium versus Executive Budget Proposal 2011 Biennium

Proprietary Funds House Bill 2 Proposals Agency Number and Name	Adjusted Base FY 2008	Adjusted Authorized FY 2009	Adjusted Total FY 08-09	Executive Budget-OTO FY 2010	Executive Budget-OTO FY 2011	Executive Budget-OTO FY 10-11	Biennial Change	Biennial Percent
3101 Governor's Office	-	-	-	-	-	-	-	
3401 State Auditor's Office	-	-	-	-	-	-	-	
3501 Office Of Public Instruction	-	-	-	-	-	-	-	
4110 Department Of Justice	$ 1,479,035.00	$ 1,782,029.00	$ 3,261,064.00	$ 1,772,579.00	$ 1,773,914.00	$ 3,546,493.00	$ 285,429.00	8.8%
5102 Commissioner Of Higher Education	94,471	110,358	204,829	90,795	89,141	179,936	(24,893)	-12.2%
5115 Montana State Library	-	152,044	152,044	-	-	-	(152,044)	-100.0%
5117 Montana Historical Society	800,466	956,433	1,756,899	981,537	966,159	1,947,696	190,797	10.9%
5301 Department Of Environmental Quality	-	-	-	-	-	-	-	
5401 Department Of Transportation	-	-	-	-	-	-	-	
5706 Dept Of Natural Resources & Conservation	-	-	-	-	-	-	-	
5801 Department Of Revenue	2,179,052	2,308,582	4,487,634	2,432,189	2,439,867	4,872,056	384,422	8.6%
6101 Department Of Administration	7,241,453	7,711,373	14,952,826	7,377,599	7,279,428	14,657,027	(295,799)	-2.0%
6201 Department Of Agriculture	393,105	459,878	852,983	609,253	610,645	1,219,898	366,915	43.0%
6401 Department Of Corrections	515,376	557,956	1,073,332	652,482	649,128	1,301,610	228,278	21.3%
6602 Department Of Labor & Industry	47,442	6,275,481	6,322,923	87,790	87,837	175,627	(6,147,296)	-97.2%
Total House Bill 2 Proposals	**$12,750,400**	**$20,314,134**	**$33,064,534**	**$14,004,224**	**$13,896,119**	**$27,900,343**	**($5,164,191)**	**-15.6%**
Long-Range Building Proposals	-	-	-	-	-	-	-	
Miscellaneous Proposals	-	-	-	35,373	106,782	142,155	142,155	
Transfers	-	-	-	-	-	-	-	
Statutory Recommendations	39,481,550	35,447,251	74,928,801	39,159,143	39,127,640	78,286,783	3,357,982	4.5%
Total Executive Recommendations	**$52,231,950**	**$55,761,385**	**$107,993,335**	**$53,198,740**	**$53,130,541**	**$106,329,281**	**($1,664,054)**	**-1.5%**

Figure 22

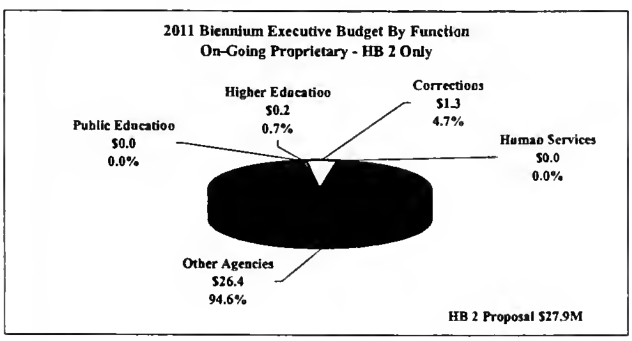
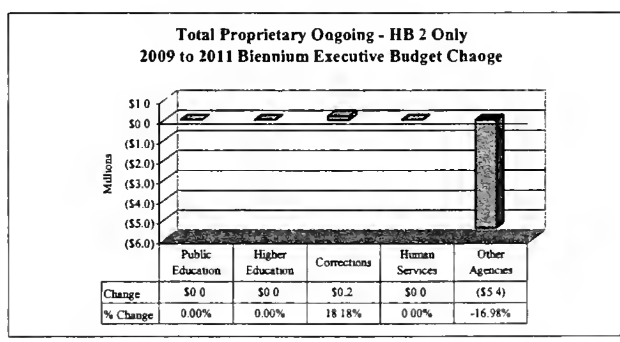


Figure 23



ALL FUNDS

The following figure is a composite by agency of the preceding tables, and shows a $484.5 million, or 6.3 percent ($518.1 million and 6.8 percent of OTO's are included) increase in total funds.

Figure 24

Fund Comparison
2009 Biennium versus Executive Budget Proposal 2011 Biennium

Total Funds House Bill 2 Proposals Agency Number and Name	Adjusted Base FY 2008	Adjusted Authorized FY 2009	Adjusted Total FY 08-09	Executive Budget-OTO FY 2010	Executive Budget-OTO FY 2011	Executive Budget-OTO FY 10-11	Biennial Change	Biennial Percent
1104 Legislative Branch	$ 11,374,160.00	$ 13,584,709.00	$ 24,958,869.00	$ 14,584,326.00	$ 14,129,063.00	$ 28,713,389.00	$ 3,754,520.00	15.0%
1112 Consumer Council	1,262,908	1,535,286	2,798,194	1,751,585	1,762,560	3,514,145	715,951	25.6%
2110 Judicial Branch	34,068,119	37,576,862	71,644,981	37,407,233	37,327,250	74,734,483	3,089,502	4.3%
3101 Governor's Office	5,841,498	5,930,262	11,771,760	6,075,729	5,961,152	12,036,881	265,121	2.3%
3201 Secretary Of State's Office	-	-	-	-	-	-	-	
3202 Comm Of Political Practices	365,420	448,840	814,260	471,198	464,027	935,225	120,965	14.9%
3401 State Auditor's Office	15,328,050	17,524,850	32,852,900	18,590,321	19,067,884	37,658,205	4,805,305	14.6%
3501 Office Of Public Instruction	783,028,298	838,195,249	1,621,223,547	827,714,348	848,187,150	1,675,901,498	54,677,951	3.4%
4107 Crime Control Division	8,318,741	31,115,179	39,433,920	8,991,524	8,995,975	17,987,499	(21,446,421)	-54.4%
4110 Department Of Justice	61,587,747	73,334,887	134,922,634	69,395,988	69,381,722	138,777,710	3,855,076	2.9%
4201 Public Service Regulation	3,180,187	3,375,932	6,556,119	3,733,013	3,483,032	7,216,045	659,926	10.1%
5101 Board Of Public Education	376,056	409,875	785,931	411,759	413,889	825,648	39,717	5.1%
5102 Commissioner Of Higher Education	229,346,474	286,882,779	516,229,253	256,353,983	260,176,948	516,530,931	301,678	0.1%
5113 School For The Deaf & Blind	5,810,616	6,341,056	12,151,672	6,297,118	6,265,856	12,562,974	411,302	3.4%
5114 Montana Arts Council	1,249,830	1,297,160	2,546,990	1,290,459	1,274,319	2,564,778	17,788	0.7%
5115 Montana State Library	4,358,497	5,137,842	9,496,339	4,993,714	4,381,280	9,374,994	(121,345)	-1.3%
5117 Montana Historical Society	4,168,165	4,596,057	8,764,222	4,503,205	4,470,089	8,973,294	209,072	2.4%
5201 Department Of Fish, Wildlife & Parks	64,846,349	69,051,242	133,897,591	71,403,071	71,585,104	142,988,175	9,090,584	6.8%
5301 Department Of Environmental Quality	43,086,857	56,000,602	99,087,459	58,145,744	58,139,998	116,285,742	17,198,283	17.4%
5401 Department Of Transportation	512,158,252	560,732,722	1,072,890,974	549,214,927	554,866,407	1,104,081,334	31,190,360	2.9%
5603 Department Of Livestock	9,294,998	10,302,827	19,597,825	10,529,736	10,894,000	21,423,736	1,825,911	9.3%
5706 Dept Of Natural Resources & Conservation	46,688,449	50,344,861	97,033,310	51,297,801	51,528,093	102,825,894	5,792,584	6.0%
5801 Department Of Revenue	50,196,128	52,382,052	102,578,180	54,601,658	54,710,579	109,312,237	6,734,057	6.6%
6101 Department Of Administration	19,425,212	22,199,950	41,625,162	22,102,067	21,987,155	44,089,222	2,464,060	5.9%
6106 Mt Consensus Council	149,435	188,655	338,090	-	-	-	(338,090)	-100.0%
6108 Office Of The Public Defender	19,269,508	19,652,568	38,922,076	20,258,279	20,110,338	40,368,617	1,446,541	3.7%
6201 Department Of Agriculture	12,713,317	14,499,098	27,212,415	16,477,600	16,441,910	32,919,510	5,707,095	21.0%
6401 Department Of Corrections	157,271,968	189,619,897	346,891,865	179,913,315	186,767,422	366,680,737	19,788,872	5.7%
6501 Department Of Commerce	20,977,320	26,578,243	47,555,563	31,965,279	29,039,621	61,004,900	13,449,337	28.3%
6602 Department Of Labor & Industry	64,412,783	79,345,785	143,758,568	71,607,353	71,662,524	143,269,877	(488,691)	-0.3%
6701 Department Of Military Affairs	26,326,228	28,975,594	55,301,822	40,480,218	40,693,641	81,173,859	25,872,037	46.8%
6901 Dept Of Public Health & Human Services	1,357,322,268	1,589,918,215	2,947,240,483	1,592,370,203	1,648,263,989	3,240,634,192	293,393,709	10.0%
Total House Bill 2 Proposals	$3,573,803,838	$4,097,079,136	$7,670,882,974	$4,032,932,754	$4,122,432,977	$8,155,365,731	$484,482,757	6.3%

Figure 25

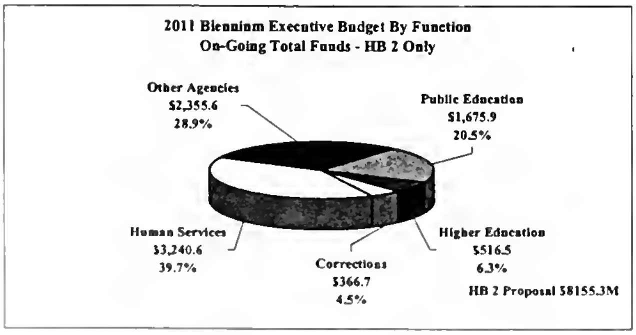
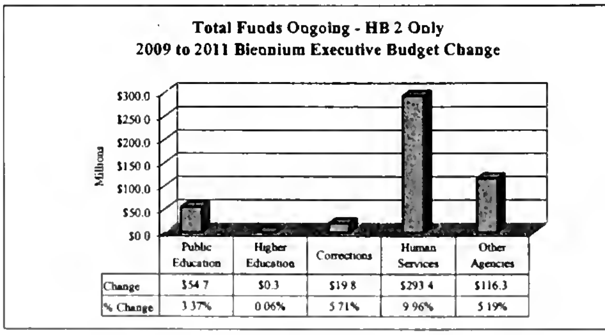


Figure 26



Biennial Budget Comparison

This section summarizes the executive recommendations for the 2011 biennium and compares it to expenditures\appropriations for the 2009 biennium. Please note that this statutory comparison method includes one-time only (OTO) expenditures. In view of the unusually high amount of OTO's in the current biennium, comparisons in other parts of this report compare ongoing expenditures only, and exclude OTO's.

The executive is recommending a 2011 biennium budget that includes a reduction of $221.8 million in general fund expenditures, a 5.5 percent decrease. Total decreases (all funds) amount to $829.3 million, an 8.0 percent decrease. The executive proposal for general fund and total spending increases are supported by existing sources of revenue, sustained by estimated general fund and federal revenue for the 2011 biennium. Transfers, including the one-time transfers of general fund, are included so the reader will have a complete picture of general fund disbursements. Although transfers are not appropriations, the legislature appropriates the money from the account to which the money is transferred.

Methodology

The state budget is highly complex, and the methods used to compute comparisons within the context of that budget can vary considerably. Without consistent comparison methodology, the comparisons can also be subject to manipulation. The Legislative Finance Committee (LFC) developed a budget comparison methodology that measures budget performance using total state expenditures for state general operations funded by taxpayer taxes, licenses, and fees. This method helps ensure proper representation, fairness, balance, and consistency. Adopted by the 1997 Legislature, use of the comparison procedures became a statutory requirement at that time. These procedures provide consistency of application and help avoid the potential for manipulation when comparing information.

The comparisons on the following pages were prepared using the statutory methodology found in 17-7-150 & 151, MCA, with the following exception - general fund transfers are included.

Comparison To 2009 Biennium

Figures 27 and 28 compare expenditures/appropriations between the 2009 and 2011 biennia for general fund and for total funds. As shown in the figures, the largest HB 2 general fund increases are found in the Department of Public Health and Human Services (DPHHS) ($73.2 million), Office of Public Instruction ($62.5 million), and the Department of Corrections ($18.3 million). However, the largest increases in percentage terms occur in the departments of Agriculture, Labor and Industry, Environmental Quality, and the Legislative Branch. Only the Department of Livestock and the Montana Consensus Council show declines. The executive proposes to eliminate the Montana Consensus Council.

Figures 27 and 28 are divided into three sections:

- The top part of the table includes all appropriations recommended to be included in HB 2 (the General Appropriations Act), by agency.
- Because HB 2 does not include all appropriations or transfers authorized by the legislature, the second part of the table includes transfers and additional appropriations. This section is referred to as "Comparable Adjustments" because the items can be compared across biennia. The total shown in the column "Total Exec. Budget Fiscal 10-11" (the 2011 biennium) represents all recommendations made by the executive, with the exception of the non-cash portion of long-range building program, budget amendments, and supplemental appropriations. Long-range building proposals are specifically excluded because spending and timing vary considerably on most building projects. The building expenditures are reflected by the debt service paid over the term of any bonding/leasing agreement. Statutory appropriations represent the executive estimates for non-general fund. General fund statutory appropriations are estimates of the Legislative Fiscal Division. (Note: The total in the "Total Adjusted Fiscal 08-09" (the 2009 biennium) column does not represent all contingent appropriations in that biennium, which are included in the third section.)
- The third section, "Non Comparable Adjustments", includes all 2009 biennium expenditure/appropriations, including budget amendments and supplemental appropriations that cannot be estimated for the next biennium. Excluded from the "Comparable Adjustments" total are probable 2011 biennium expenditures that belong in this category. Consequently, the increases for general fund and total funds do not represent a true picture of potential growth between biennia.

House Bill 2 Comparisons

All HB 2 comparisons exclude one-time appropriations and transfers which are shown in the second section. As shown in Figures 27 and 28, general fund appropriations in HB 2 increase $190.4 million or 6.0 percent. All funds increase $484.5 million or 6.3 percent, with $117.5 million of increases in state special revenue and $181.8 million in federal special revenue. Proprietary fund decrease $5.2 million. These are primarily due to additional state special appropriations in the Department of Public Health and Human Services ($57.7 million), Department of Environmental Quality ($15.2 million), and Department of Fish, Wildlife and Parks ($7.9 million), and additional federal funds appropriations in DPHHS ($162.5 million), Department of Transportation ($29.2 million), and the Department of Military Affairs ($24.8 million). The largest reductions in state special revenue occur in the Crime Control Division ($22.1 million), Commissioner of Higher Education ($15.1 million), and the Office of Public Instruction ($7.8 million).

Appropriation increases are summarized in the "State Expenditures Perspectives" section of this volume, page 74, and are detailed in the tables and narratives of the specific agencies in Volumes 3 through 7.

Comparable Adjustments

Comparable adjustments include HB 2 appropriations, all miscellaneous appropriation bills including the employee pay plan bill, statutory appropriations, transfers, and other appropriation and expenditure adjustments. Also include are one-

time appropriations and transfers. The executive recommends $221.8 million in decreased general fund disbursements for the 2011 biennium million as compared to the 2009 biennium, a decrease of 5.5 percent. The decrease in all funds spending over comparable 2009 biennium spending is $829.3 million, or 8.0 percent.

Non-Comparable Adjustments

Non-comparable Adjustments, the third section, shows a decrease of 100 percent general fund and 100 percent total funds between biennia. As stated earlier, this comparison tends to be distorted by the lack of comparable information for the 2011 biennium. This section and these comparisons are shown for informational purposes only and to complete the listing of 2009 biennium expenditures\appropriations.

Comparison Caution

Comparisons vs. Budget Base Adjustments

This volume compares the 2011 biennium Executive Budget to actual expenditures and expenditures/appropriations and transfers for the 2009 biennium. The methodology used is that prescribed by the budget comparison statute, and upholds the concept of a comparison of the total state budget from biennium to biennium. This is a particularly useful practice due to the cyclical nature of annual budgets. However, because the Executive Budget is prepared using a different statutorily defined process, there is a difference between the total changes indicated in this volume and those indicated in the individual agency and program budgets discussed in the agency budgets section in Volumes 3 through 7.

Because present law adjustments are added to the base year (fiscal 2008) to determine a present law budget for the 2011 biennium and budget growth as prescribed by total adjustments, the intermediate year (fiscal 2009) is ignored. This method facilitates budget development from a vantage point of recent, actual experience, but overstates true budget growth because all increases are measured from the base year.

Conversely, using the base year (fiscal 2008) plus fiscal 2009 appropriations for budget comparisons more accurately reflects true budget growth. This is because the increases/decreases are measured from a biennial perspective that takes into account the annual increase from the base year to the fiscal 2009 appropriated amount.

While consideration of increases over the base year is necessary to making budgetary decisions, the adjustments should not be used as measures of growth or for comparative purposes. When making comparisons, the total budget for the 2011 biennium should be examined in comparison with the total 2009 biennium, as described above.

Figure 27

General Fund Comparison
2009 Biennium Versus Executive Budget 2011 Biennium

Agency Code	Agency Name	Total Adjusted Fiscal 08-09	Total Exec. Budget Fiscal 10-11	Difference 2011 Biennium - 2009 Biennium	% Change 2011 Biennium 2009 Biennium
House Bill 2					
1104	Legislative Branch	$20,366,003	$23,997,996	$3,631,993	17.83%
2110	Judicial Branch	67,719,533	70,094,824	2,375,291	3.51%
3101	Governor's Office	11,722,960	11,971,881	248,921	2.12%
3202	Comm Of Political Practices	814,260	935,225	120,965	14.86%
3501	Office Of Public Instruction	1,308,810,866	1,371,347,089	62,536,223	4.78%
4107	Board of Crime Control	4,500,086	5,009,104	509,018	11.31%
4110	Department Of Justice	49,037,415	51,509,293	2,471,878	5.04%
5101	Board Of Public Education	434,314	453,967	19,653	4.53%
5102	Commissioner Of Higher Education	356,448,448	366,799,703	10,351,255	2.90%
5113	School For The Deaf & Blind	11,246,999	11,578,220	331,221	2.94%
5114	Montana Arts Council	926,924	942,670	15,746	1.70%
5115	Montana State Library	4,861,548	5,545,458	683,910	14.07%
5117	Montana Historical Society	5,390,101	5,494,043	103,942	1.93%
5201	Department Of Fish, Wildlife & Parks	0	0	0	
5301	Department Of Environmental Quality	9,873,546	11,805,530	1,931,984	19.57%
5401	Department Of Transportation	0	0	0	
5603	Department Of Livestock	2,228,119	2,223,993	(4,126)	-0.19%
5706	Dept Of Natural Resources & Conservation	42,703,304	45,968,017	3,264,713	7.65%
5801	Department Of Revenue	95,765,686	101,846,103	6,080,417	6.35%
6101	Department Of Administration	13,081,930	13,651,733	569,803	4.36%
6106	Mt Consensus Council	153,390	0	(153,390)	-100.00%
6108	Office Of The Public Defender	38,803,620	40,281,705	1,478,085	3.81%
6201	Department Of Agriculture	1,691,829	2,104,297	412,468	24.38%
6401	Department Of Corrections	338,688,378	357,025,122	18,336,744	5.41%
6501	Department Of Commerce	5,045,062	5,242,075	197,013	3.91%
6602	Department Of Labor & Industry	4,370,280	5,258,361	888,081	20.32%
6701	Department Of Military Affairs	10,882,696	11,642,486	759,790	6.98%
6901	Dept Of Public Health & Human Services	744,839,143	818,041,514	73,202,371	9.83%
	Total	$3,150,406,440	$3,340,770,409	$190,363,969	6.04%
Comparable Adjustments					
	Statutory Appropriations (LFD)	332,150,151	354,727,324	22,577,173	6.80%
	Transfers (LFD) *	17,021,016	18,724,531	1,703,515	10.01%
	Misc. and One-time Appropriations	620,217,393	83,764,736	(536,452,657)	-86.49%
	Anticipated Reversions (LFD)	(112,028,000)	(12,040,000)	99,988,000	-89.25%
	Total With Comparable Adjustments	$4,007,767,000	$3,785,947,000	($221,820,000)	-5.53%
Non Comparable Adjustments					
	Budget Amendments	0		0	
	Supplementals	2,648,000		(2,648,000)	-100.00%
	Total With All Adjustments	$4,010,415,000	$3,785,947,000	($224,468,000)	-5.60%

* The amounts are transferred to other accounts and appropriated in HB 2 or other appropriation bills

Figure 28

All Funds Comparison
2009 Biennium Versus Executive Budget 2011 Biennium

Agency Code	Agency Name	Total Adjusted Fiscal 08-09	Total Exec. Budget Fiscal 10-11	Difference 2011 Biennium - 2009 Biennium	% Change 2011 Biennium 2009 Biennium
House Bill 2					
1104	Legislative Branch	$24,958,869	$28,713,389	$3,754,520	15.04%
1112	Consumer Council	2,798,194	3,514,145	715,951	25.59%
2110	Judicial Branch	71,644,981	74,734,483	3,089,502	4.31%
3101	Governor's Office	11,771,760	12,036,881	265,121	2.25%
3201	Secretary Of State's Office	0	0	0	
3202	Commissioner Of Political Practices	814,260	935,225	120,965	14.86%
3401	State Auditor's Office	32,852,900	37,658,205	4,805,305	14.63%
3501	Office Of Public Instruction	1,621,223,547	1,675,901,498	54,677,951	3.37%
4107	Board of Crime Control	39,433,920	17,987,499	(21,446,421)	-54.39%
4110	Department Of Justice	134,922,634	138,777,710	3,855,076	2.86%
4201	Public Service Regulation	6,556,119	7,216,045	659,926	10.07%
5101	Board Of Public Education	785,931	825,648	39,717	5.05%
5102	Commissioner Of Higher Education	516,229,253	516,530,931	301,678	0.06%
5113	School For The Deaf & Blind	12,151,672	12,562,974	411,302	3.38%
5114	Montana Arts Council	2,546,990	2,564,778	17,788	0.70%
5115	Montana State Library	9,496,339	9,374,994	(121,345)	-1.28%
5117	Montana Historical Society	8,764,222	8,973,294	209,072	2.39%
5201	Department Of Fish, Wildlife & Parks	133,897,591	142,988,175	9,090,584	6.79%
5301	Department Of Environmental Quality	99,087,459	116,285,742	17,198,283	17.36%
5401	Department Of Transportation	1,072,890,974	1,104,081,334	31,190,360	2.91%
5603	Department Of Livestock	19,597,825	21,423,736	1,825,911	9.32%
5706	Dept Of Natural Resources & Conservation	97,033,310	102,825,894	5,792,584	5.97%
5801	Department Of Revenue	102,578,180	109,312,237	6,734,057	6.56%
6101	Department Of Administration	41,625,162	44,089,222	2,464,060	5.92%
6106	Mt Consensus Council	338,090	0	(338,090)	-100.00%
6108	Office Of The Public Defender	38,922,076	40,368,617	1,446,541	3.72%
6201	Department Of Agriculture	27,212,415	32,919,510	5,707,095	20.97%
6401	Department Of Corrections	346,891,865	366,680,737	19,788,872	5.70%
6501	Department Of Commerce	47,555,563	61,004,900	13,449,337	28.28%
6602	Department Of Labor & Industry	143,758,568	143,269,877	(488,691)	-0.34%
6701	Department Of Military Affairs	55,301,822	81,173,859	25,872,037	46.78%
6901	Dept Of Public Health & Human Services	2,947,240,483	3,240,634,192	293,393,709	9.95%
	Total	$7,670,882,974	$8,155,365,731	$484,482,757	6.32%
Comparable Adjustments					
	Statutory Appropriations	1,163,505,303	1,066,958,305	(96,546,998)	-8.30%
	Misc. & One-time Appropriations	1,706,177,867	388,914,839	(1,317,263,028)	-77.21%
	Anticipated Reversions (general fund)	(112,028,000)	(12,040,000)	99,988,000	-89.25%
	Total With Comparable Adjustments	$10,428,538,144	$9,599,198,875	($829,339,269)	-7.95%
Non Comparable Adjustments					
	Budget Amendments	0	0	0	
	Supplementals	25,390,784	0	(25,390,784)	-100.00%
	Total With All Adjustments	$10,453,928,928	$9,599,198,875	($854,730,053)	-8.18%

APPENDIX C

INDEX TO OTHER LFD BUDGET REFERENCE DOCUMENTS

In addition to the Legislative Budget Analysis – 2011 Biennium (Volumes 1 through 7), there are several other reference documents that legislators and other interested parties can use as a source of information concerning budget and other fiscal matters. A limited number of reports of past biennia are available for reference in the LFD office (photo copies of pages of interest can be made). Training publications and brochures are available for distribution and on the LFD website. Check with an LFD staff member for assistance (see staff list near the front of this volume).

TRAINING PUBLICATIONS

Training materials prepared by the LFD include the following:

- Understanding State Finances and the Budgeting Process (A Reference Manual for Legislators) is a helpful guide for persons wanting more detailed information concerning fiscal matters
- HB 2 the Barbarian (How to Make HB 2 Implement Public Policy as Determined by the Legislature) describes the intricacies of developing the general appropriations act

FISCAL POCKET GUIDES

A variety of brochures have been prepared to provide summary information concerning select topics important to legislators and other interested parties.

- √ Bed Tax
- √ Beer Tax
- √ Cigarette Tax
- √ Coal Severance Tax
- √ Coal Severance Tax - A Data View
- √ Coal Severance Tax - A Pictorial View
- √ Coal Severance Tax - Distribution Detail
- √ Corporation Income Tax
- √ Electrical Energy Tax
- √ General Fund (by year)
- √ Higher Education
- √ Individual Income Tax
- √ Insurance Tax & License Fees
- √ Insure Montana
- √ K-12 Education Funding
- √ Liquor Excise Tax
- √ Medicaid
- √ Metalliferous Mines Tax
- √ Montana Highway Funding
- √ Oil & Natural Gas Tax
- √ Pertinent State Statistics
- √ Property Tax
- √ Rental Car Sales Tax
- √ Resource Indemnity Trust
- √ State Employees Budgeting
- √ State Financial and Budgeting Structure
- √ TANF (Temporary Assistance for Needy Families)
- √ Telecommunications Tax
- √ Tobacco Settlement
- √ Tobacco Settlement Financial Summary
- √ Tobacco Tax
- √ Video Gambling Tax
- √ Wholesale Energy Tax
- √ Wildfire Suppression Funding
- √ Wine Tax

The LFD would welcome suggestions for other possible topics for pocket guides.

AGENCY PROFILES

The LFD has created a "profile" of each of the agencies of state government for which funding is provided in the general appropriations act. These profiles include summaries of what the agency does, how it does it, how it is funded, who its primary customers are, and how the legislature can effect change. The profiles also contain a history of expenditures and selected pertinent statistics.

PREVIOUS REPORTS

The Legislative Budget Analysis is prepared at the beginning of each biennium and the Legislative Fiscal Report is published at the end of each session. The latter is a record of legislative actions that resulted from the enactment of House Bill 2 and other appropriation legislation, as well as revenue estimation and discussion of other fiscal issues.

- The Legislative Budget Analysis for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library
- The Legislative Fiscal Report for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library. Early versions of this report were titled the Appropriations Report

LFD WEBSITE

The Legislative Fiscal Division maintains a comprehensive website which, as mentioned, contains all of the above items except for items that predate the website (circa 1999).

Beginning with the 2011 Legislative Budget Analysis, some previously published items in the Volume 1 - Statewide Perspectives has been removed from that volume and placed on the LFD website with the Legislative Budget Analysis, in an area referred to as Volume 8. Feel free to ask LFD staff for assistance if you have trouble finding or accessing these items. The LFD website address is:

www.leg.mt.gov/css/fiscal/

On the LFD home page, you can find a list of available publications and reports.

Glossary / Acronyms / Index

GLOSSARY

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget analysis and in other fiscal materials, are listed and defined below.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium.

Budget amendment – See "Budget Amendment" below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount.

Line Item – An appropriation made for a specific purpose and which cannot be used for any other purpose. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.

Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references are listed in 17-7-502, MCA.

Temporary - An appropriation authorized by the legislature in the general appropriations act or in a "cat and dog" bill that is valid only for the biennium.

Appropriation Transfers (also see "Supplemental Appropriation") – The transfer of funds appropriated for the second year of the biennium to the first if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- The Governor or his/her designated representative for executive branch agencies
- The Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- The Speaker of the House of Representatives for the House;
- The President of the Senate for the Senate
- The appropriate standing legislative committees or designated representative for the legislative branch divisions
- The Board of Regents of Higher Education or their designated representative for the university system

Average Daily Population (ADP) – The population measure used to calculate population in the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

Base – The level of funding authorized by the previous legislature.

Base Budget – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

Cat and Dog Appropriations – One-time appropriations made in bills other than the general appropriations act.

Debt Service – The payment on outstanding bonds.

Decision Package – Separate, specific adjustments to the base budget. Decision packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activities.

Enterprise Funds – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by the Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) aka State Fiscal Year (SFY) – A 12-month accounting period beginning July 1 and ending June 30. Fiscal year 2003 refers to the fiscal year ending June 30, 2003. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services.).

FTE – Full-Time Equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent appropriated funds that are returned to the general fund at the close of the budget period.

Grants – An expenditure category used to account for the payment by a government entity to an individual or other entity who will perform a service.

HB 2 –The General Appropriations Act in which the legislature authorizes the funding for state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

IRIS - The Integrated Revenue Information System (IRIS) is an automated system to administer taxes that are the responsibility of the Department of Revenue to collect.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

MBARS – The Montana Budget Analysis and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS).

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each $1,000 of assessed property value.

New Proposals – Requests (decision packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Operating Expenses – All operating expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds – Capital projects and fiduciary funds.

- Capital projects fund – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.

- Fiduciary funds – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

Personal Services –Expenditures for salaries, benefits, per diem, and other additions, such as overtime.

Personal Services Snapshot – The point in time at which personal services attributes are captured and from which the personal services budget is determined. The executive budget personal services costs are based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (decision packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

- Enterprise funds – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.
- Internal service funds - Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year.

ACRONYMS

AES	Agricultural Experiment Station
ADP	Average Daily Population
ANB	Average Number Belonging (K-12 education)
ARM	Administrative Rules of Montana
BASE Aid	Base Amount for School Equity Aid
BPE	Board of Public Education
C&A	Cultural and Aesthetic (Trust)
CC	Community Colleges
CES	Cooperative Extension Service
CHE	Commissioner of Higher Education
CHIP	Children's Health Insurance Program (also SCHIP)
CIO	Chief Information Officer
COPP	Commissioner of Political Practices
COT	College of Technology, followed by campus designation
CPI	Consumer Price Index
DEQ	Department of Environmental Quality
DMA	Department of Military Affairs
DNRC	Department of Natural Resources and Conservation
DOA	Department of Administration
DOA	Department of Agriculture
DOC	Department of Commerce
DOC	Department of Corrections
DOJ	Department of Justice
DOLI	Department of Labor and Industry
DOR	Department of Revenue
DP	Decision Package
DPHHS	Department of Public Health and Human Services
FCES	Forestry and Conservation Experiment Station
FMAP	Federal Medical Assistance Participation rate (Medicaid)
FSR	Federal Special Revenue
FSTS	Fire Services Training School
FTE	Full-Time Equivalent
FWP	Department of Fish, Wildlife, and Parks
FFY	Federal Fiscal Year
FY	Fiscal Year
FYE	Fiscal Year End
GAAP	Generally Accepted Accounting Principles
GF	General Fund
GSL	Guaranteed Student Loan
GTB	Guaranteed Tax Base
HAC	House Appropriations Committee
HSRA	Highways Special Revenue Account
I&I	Interest and Income
IRIS	Integraed Revenue Information System
IT	Information Technology
ITSD	Information Technology Services Division
LAD	Legislative Audit Division
LEPO	Legislative Environmental Policy Office
LFA	Legislative Fiscal Analyst
LFC	Legislative Finance Committee
LFD	Legislative Fiscal Division
LRBP	Long Range Building Program
LRP	Long Range Planning
LSD	Legislative Services Division

MAC	Montana Arts Council
MBARS	Montana Budgeting, Analysis, and Reporting System
MBCC	Montana Board of Crime Control
MBMG	Montana Bureau of Mines and Geology
MCA	Montana Code Annotated
MCHA	Montana Comprehensive Health Association
MDT	Montana Department of Transportation
MHP	Montana Highway Patrol
MHS	Montana Historical Society
MSDB	Montana School for the Deaf and Blind
MSF	Montana State Fund
MSL	Montana State Library
MSP	Montana State Prison
MSU	Montana State University, followed by campus designation i.e. MSU – Bozeman
MUS	Montana University System
NP	New Proposal
OBPP	Office of Budget and Program Planning
OCHE	Office of the Commissioner of Higher Education
OPI	Office of Public Instruction
PERS	Public Employees Retirement System
PL	Present Law
PSC	Public Service Commission
RIGWA	Resource Indemnity and Groundwater Assessment Tax
RIT	Resource Indemnity Trust
SABHRS	Statewide Accounting, Budgeting, and Human Resources System
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SAO	State Auditor's Office
SF&C	Senate Finance and Claims Committee
SOS	Secretary of State
SSR	State Special Revenue
TANF	Temporary Assistance for Needy Families
TRS	Teachers' Retirement System
TSEP	Treasure State Endowment Program
UM	University of Montana, followed by campus designation i.e. UM – Missoula

INDEX FOR ALL VOLUMES 1-8 (VOL. 8 IS ON LFD WEBSITE ONLY)

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